PepsiCo, Inc.

Annual Report 1980

PepsiCo, Inc.

PepsiCo operates in five business segments: beverages, food products, food service, transportation, and sporting goods. Each division develops its own plans and goals consonant with its operating environment and PepsiCo's corporate objectives.

The corporation's steady growth record is based upon high performance standards, a flexible approach to marketing challenges, and the integrity of its products, people, and business practices. Also, the premium placed on results has helped to make PepsiCo products and services brand leaders in the fields in which they compete.

Known around the world, PepsiCo is synonymous with leisure time activity. Its marketing and service divisions, all in growth fields, are synchronized to the popular basics of everyday life.

With investments abroad developing into even healthier businesses, and domestic operations more promising than ever, PepsiCo is in solid financial condition and prepared for continuing growth in the unfolding decade.

In this Report, along with an examination of the financial developments of 1980, is *PepsiCo Worldwide,* a photographic essay on the corporation's pervasive sales, marketing, and distribution network—a spreading foundation for future growth.

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1980 Highlights

Operating profit rose 20 percent. All five business segments contributed to profit growth.

Particularly strong profit improvement was achieved by food service, transportation, and sporting goods businesses.

Earnings per share rose 12 percent and net income increased 10 percent before an extraordinary charge despite major swing in interest costs and higher effective tax rate.

Sales and revenues increased 17 percent.

Capital spending was a record $446 million, with major expansion in snack foods and international bottling.

Return on shareholders' equity was 21.7 percent, nearly equal to record set in 1979.

Pizza Hut reversed sales trends in second-half of 1980 with 10 percent increase in real volume per store.

Frito-Lay had another exceptional year. Tostitos brand Tortilla Chips achieved $140 million in retail sales in first year. Two new superplants opened.

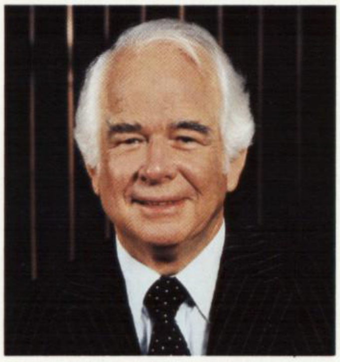
Letter to Our Shareholders

In 1980, PepsiCo once again demonstrated the ability to sustain its record of continuous growth and high returns even in a period of unfavorable economic conditions. Despite difficult economic trends both at home and abroad, PepsiCo's sales and revenues increased by 17 percent to $6.0 billion. Net income rose 10 percent to $291.8 million, before an extraordinary charge related to the write-off of certain motor carrier operating rights. Earnings were up three percent to $274.0 million after the charge. Earnings per share advanced 12 percent to $3.20 before the charge and six percent to $3.01 after the charge.

Operating profits (before interest and taxes) advanced 20 percent in 1980, reflecting the strong performance of the corporation's divisions. Our profit margin at the operating level also increased in 1980, up from 9.4 percent in 1979 to 9.6 percent. Because of substantially higher interest costs and taxes, however, the after-tax margin declined slightly from 5.2 percent to 4.9 percent.

All five of our business segments contributed to our fine performance last year. Our Beverage and Food Products Divisions made very satisfactory gains in both market share and financial terms despite weak consumer buying power and intense competition in their markets. It was particularly gratifying to see the substantial improvements in our Food Service and Transportation lines. Although very difficult conditions prevailed in the restaurant and trucking industries, each business made important gains in its competitive position. We look forward to continued progress in the year ahead. The Wilson Sporting Goods Division also substantially improved its profits and return in 1980, even though consumer demand in its industry was generally weak. You will find a detailed review of each of our business segments later in this Report.

In 1980, we maintained our return on shareholders' equity at a high level of 21.7 percent, nearly equal to the record set in 1979. The corporation's return on assets employed declined slightly from the record level of 15.3 percent in 1979 to 14.7 percent in 1980. This decline reflects the higher effective tax rate incurred in 1980 and the major investments PepsiCo made to expand capacity in our primary businesses. These investments will contribute to our earnings performance in future years.



Donald M. Kendall, Chairman of the Board and Chief Executive Officer

We remain committed to reinvesting in our businesses to ensure high levels of growth and profitability in the future. In 1980, we had record capital expenditures of $446 million, an increase of 15 percent over 1979. With continuing volume growth projected for all of our businesses, we expect to maintain a high level of capital spending in 1981, financed primarily by internal cash flow.

The Board of Directors raised the dividend in May 1980 to an annual rate of $1.30. As a result, dividends declared per share for 1980 were 14 percent higher than the year before.

Andrall E. Pearson, President and Chief Operating Officer

In these times, there is a natural interest in assessing a corporation's progress after taking into account the effects of inflation. It is particularly noteworthy that PepsiCo has been able to increase earnings and dividends over the last five years at rates well above the general inflation rate. The Financial Review section of this Report provides a discussion of several measures devised by the accounting profession to reflect inflation's impact on financial results. When these measures are applied to PepsiCo, they indicate that we have generally performed very favorably compared with most other major companies.

Also, it is clear that, when our earnings are adjusted for inflation, we have been paying U.S. federal income taxes at a rate well above the statutory rate. Hopefully,

action will be taken in Washington to relieve this burden and promote greater investment and productivity.

Mr. Caspar Weinberger resigned as PepsiCo director in January 1981 in order to become Secretary of Defense in the Reagan Administration. While his counsel to PepsiCo will be missed very much, we look forward with enthusiasm to his contributions to our nation. At the same time, we are very fortunate that Mr. Thomas A. Murphy, recently retired chairman of General Motors Corporation, joined PepsiCo's Board of Directors at the beginning of the year.

As we move on through the 'eighties, we are confident that PepsiCo has the human and capital resources to meet the challenges that lie ahead.

Again, we wish to express our appreciation for the continuing support of our shareholders, employees, and customers.

Donald M. Kendall

Donald M. Kendall
Chairman of the Board and
Chief Executive Officer

Andrall E. Pearson

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President and Chief Operating Officer

Behind That Pepsi Spirit

We believe PepsiCo has become one of a handful of top-performing, multinational companies. We take great pride in this achievement, and we look forward to even more significant progress in the years immediately ahead. In a time of great economic uncertainty for many businesses, we think our optimism is justified because we have established a clear direction for our company marked by a demanding set of performance objectives and reinforced by an explicit and consistently applied management philosophy. In our view, these objectives and this philosophy are what have set us apart from our competitors in the past and will continue to distinguish us from them in the future.

A clear direction marked by demanding objectives

It is widely recognized that PepsiCo is a highly results-oriented company. This characteristic of our operating environment is frequently commented on by the press, and it is supported by all our management programs and processes. It has not led us, however, to neglect the long term or to overlook our responsibilities as a corporate citizen. Here, in brief, are our key corporate objectives and some of the steps we have taken to meet them.

☐ **Achieve an outstanding financial record through steady, reliable growth and high returns.** At PepsiCo, we are constantly reviewing and raising our growth targets to reflect both our improving position in the marketplace and the rising rate of inflation. As shown in the Financial Highlights that follow, in the last five years our sales and earnings growth accelerated more than enough to compensate for inflation. In addition, over the past decade we have made significant progress against the two major performance yardsticks by which most large businesses are judged. On the most recent *Fortune 500* list, only 24 of the 285 companies with sales over $1 billion had a combination of growth in earnings per share and return on equity that matched or exceeded PepsiCo's record. In other words, we were in the top eight percent of companies with over $1 billion in sales.

☐ **Establish a leadership position in all of our businesses.** In the mid 1970's, we set for PepsiCo the goal of becoming either the leader or a strong second in each industry where we do business. Today, as the result of distinctive competitive strategies, we are the leader in snack foods, ethnic food service, van line trucking, and sporting goods, and we are a strong and growing challenger in beverages.

☐ **Invest and innovate to assure future growth in profitability and productivity.** Our strategies call for continuous reinvestment of earnings in the business, not only in physical plant and equipment but also in marketing and R & D programs. Each year, we have invested heavily in the development and launching of new products. The success of these efforts is one indication of our ability to innovate and to back up new ideas with investment spending. In addition, each division has an ongoing program to improve the productivity of its manpower and physical assets.

☐ **Maintain integrity in all areas of business conduct.** The Corporation has adopted a worldwide Code of Conduct requiring all business to be carried out according to the strictest standards of honesty, integrity, and fairness. Each year, this program is carefully monitored to ensure understanding and compliance by key personnel around the world.

☐ **Exercise our responsibility as citizens.** We believe in actively pursuing public policies that encourage free enterprise and foster the development of healthy conditions for our business. Our corporate contributions program reflects this commitment to improving the environment in which we operate. We encourage our employees to participate in the political process as well, as individuals and through PepsiCo's political action program.

An explicit, consistent management philosophy

We regard PepsiCo's management philosophy as one of the key elements of our success. It is widely supported by our top executives, to an extent that is unusual among companies of our size; we know that it helps us recruit and retain talented people; and we believe it has materially influenced our outstanding profit and share-of-market growth. Above all, our philosophy—and the degree to which we have dedicated ourselves to making it work—is what gives PepsiCo its special character and makes our company a dynamic, demanding, "fun" place to work. These are the main elements of our management philosophy as we see it today.

☐ **We place major emphasis on these key measures of performance: earnings per share, return on investment, cash flow, and share of market.**

☐ **Achieving current targets is essential, but not at the expense of future health.**

☐ **Our divisions are relatively autonomous, and are supported by a lean, involved corporate team.**

☐ **We strive to keep our organization structure simple, lines of communication open, and decision-making prompt.**

☐ **We encourage an informal atmosphere and a broad range of management styles.**

☐ **Developing key managers is a top priority for us; whenever possible, we fill managerial vacancies by promoting from within. Besides ensuring continuity of management, this is one of the ways we live up to our commitment to foster a climate of personal growth.**

☐ **Pay and promotions are based on achieving specific goals; we reward outstanding results with high pay.**

☐ **We value entrepreneurship, so we encourage risk-taking in strategy, programs, and people decisions.**

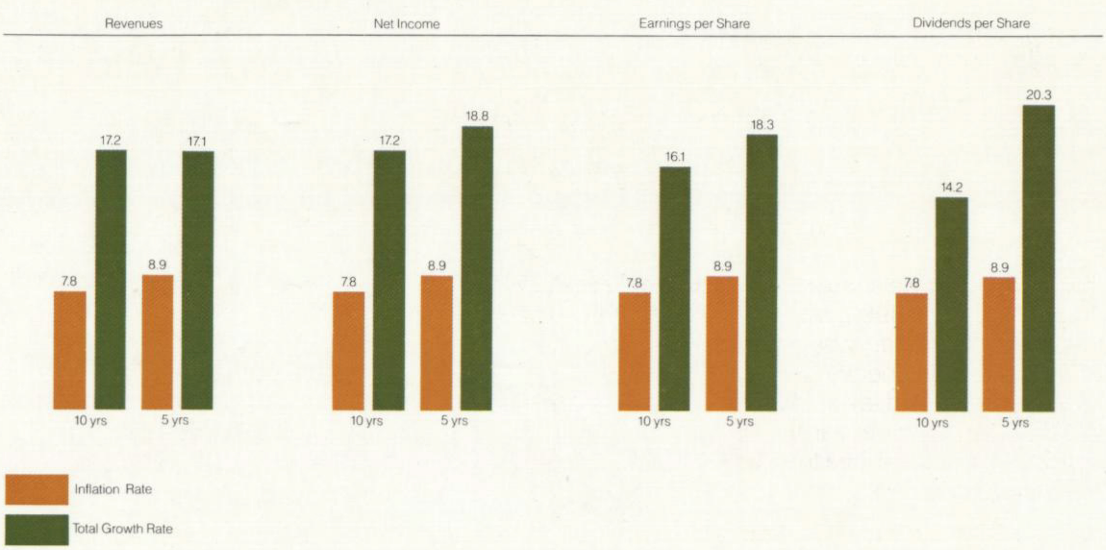
As well as this philosophy works for PepsiCo today, we are constantly alert to the need to adjust it so that we can continue to deal effectively with the problems and opportunities that come with rapid growth and an increasingly challenging external environment.

Financial Highlights

	1980	1979	Change
Revenues	**$5,975,220,000**	$5,090,567,000	+17%
Net income	**$291,752,000***	$264,855,000	+10%
Net income per share	**$3.20***	$2.85	+12%
Dividends declared	**$114,886,000**	$102,449,000	+12%
Dividends declared per share	**$1.26**	$1.105	+14%
Shareholders' equity	**$1,428,923,000**	$1,263,649,000	+13%
Shareholders' equity per share	**$15.65**	$13.89	+13%
Return on average shareholders' equity	**21.7%***	21.8%	—
Plant and equipment expenditures	**$445,712,000**	$386,885,000	+15%

*Before a $17.8 million (19 cents per share) extraordinary charge related to the write-off of motor carrier operating rights.

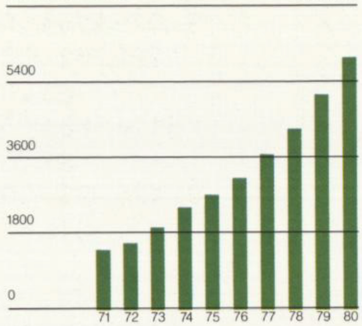
Our Total Growth Rates (Last 10 Years and Last 5 Years)



PepsiCo has sought to assure growth in earnings and dividends that would result in meaningful increases, even after taking into consideration the general inflation rate. The charts indicate that net income and earnings per share grew at rates, compounded annually, of between 16 and 19 percent over the last ten years and the last five years, exceeding the general inflation rates by between eight and ten percent. Dividends also rose faster than the inflation rates, providing a net gain of about six percent per year for the last ten years and about 11 percent per year for the last five years.

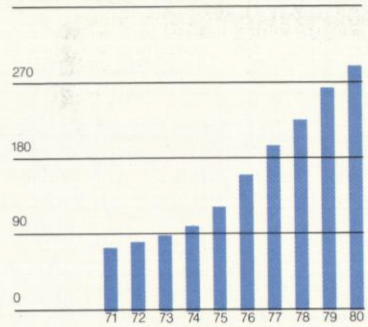
Revenues rose 17 percent in 1980, following an increase of 18 percent in 1979.

Revenues In Millions



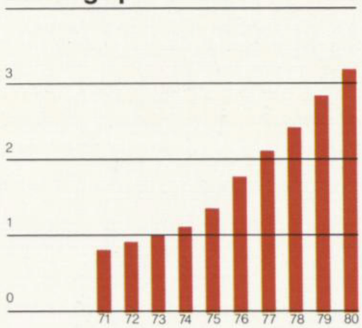
Net income, before the extraordinary charge, advanced 10 percent, after a 17 percent increase in 1979. Operating profits (profit before interest and taxes), however, grew faster in 1980 than 1979: 20 percent versus 12 percent.

Net Income In Millions



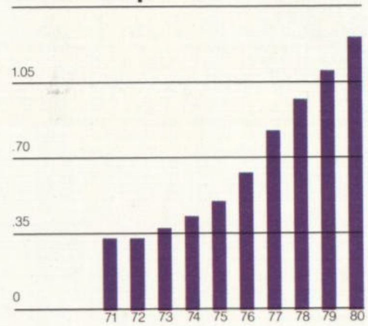
Earnings per share, before the extraordinary charge, were up 12 percent in 1980, after a rise of 17 percent the year before.

Earnings per Share In Dollars



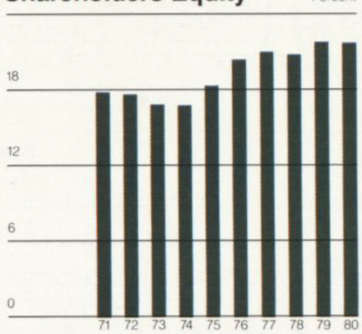
Dividends per share rose 14 percent in 1980, following a 13 percent increase a year earlier.

Dividends per Share In Dollars



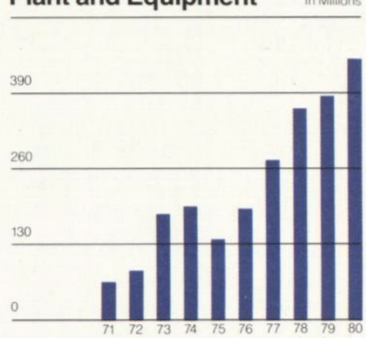
Return on average shareholders' equity in 1980, before the extraordinary charge, was 21.7 percent, nearly equal to the record level, set in 1979, of 21.8 percent and almost a full point above the 1978 level.

Return on Average Shareholders' Equity Percent



Investment in plant and equipment was at a record level of $446 million, 15 per cent above the prior year, and more than three times the $140 million spent in 1975.

Capital Investment in Plant and Equipment In Millions



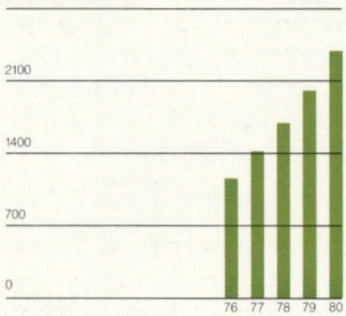
Operations Review

Beverages

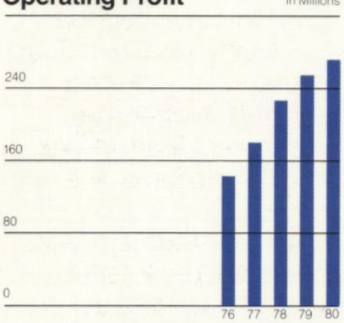
This largest of PepsiCo's businesses has two divisions, Pepsi-Cola Company (domestic soft drinks) and PepsiCo International. Revenues for this segment improved 18 percent in 1980, and profits, domestic and foreign, were up eight percent.

Both divisions have consistently performed well compared to their competitors and show good potential for future growth–not only in the United States, but in the other 145 countries in which Pepsi-Cola has become a popular product.

Beverages Revenues



Beverages Operating Profit



Pepsi-Cola Company Outpacing the soft drink industry for the fifth straight year, Pepsi-Cola Company accomplished a four percent rate of growth in bottler case sales–encouraging in the face of a weak economy and a sluggish trend in consumers' real disposable income. The company continues to be a key source of cash flow for PepsiCo, while providing a high level of return on assets employed.

The domestic soft drink industry has had to adapt to intensified competition in the marketplace and ever-increasing costs of doing business. On the other hand, Pepsi-Cola Company's ability to accommodate such rapid changes and recession, has allowed it to withstand profit pressure more effectively than most of its competitors. Developments in 1980 and plans for 1981 signal continued real growth in volume and profits during the eighties.

A major legislative event for the soft drink industry in 1980 was the enactment of the Soft Drink Interbrand Competition Act, a law that preserves exclusive soft drink territories. Such territories have been used in the business for over 80 years. This legislation validates these territories, which were challenged by the Federal Trade Commission (FTC) in a proceeding commenced in 1971.

The industry, led by Pepsi-Cola Company and its bottlers, took its side of the controversy to the courts and Congress. The legislative victory that followed is an example of democratic principles at work in the defense of free enterprise. The struggle over the FTC ruling reaffirmed the integrity of the franchise concept, saved the soft drink industry from unnecessary upheaval, and brought the Pepsi-Cola bottlers together with PepsiCo in a spirit of cooperation and mutual respect.

Pepsi-Cola Company President John Sculley was named Man of the Year by *Beverage Industry,* a trade publication, in recognition of "his willingness to commit his time and talents to fight for industry positions." Mr. Sculley, as chairman of the National Soft Drink Association's Issues Committee, has put Pepsi-Cola Company in the forefront of the industry's political involvement with the food safety and exclusive territories issues.

1980 was an intensely competitive year. Pepsi-Cola's answer to this increased competition was, in part, the *Pepsi Challenge,* a highly visible advertising and marketing campaign that emphasizes quality and taste through a simple consumer test. Results during the year continued to show clearly that, in an extremely competitive environment, the *Challenge* program can build sales volume and increase Pepsi-Cola's share of the market.

Pepsi-Cola was also the exclusive soft drink sponsor on network television of the World Series and the Major League Baseball Championship Series, building marketing equity through this leading national pastime. The World Series advertising was coordinated with a major promotion in which over 40 million "rub-off" cards were distributed via Pepsi-Cola cartons and bottle hangers. (Each consumer could become a player by following along at home with the World Series games.)

Sales gains for Diet Pepsi and Pepsi Light indicated renewed growth, as did the entire diet category. The Diet Pepsi brand increased its share of the market and the repositioning of Pepsi Light as a "one calorie" lemon-flavored cola was well received. In addition, Mountain Dew, confronting rival brand introductions, continued to increase its sales volume and share position. Mountain Dew sales now rank eighth among all soft drinks.

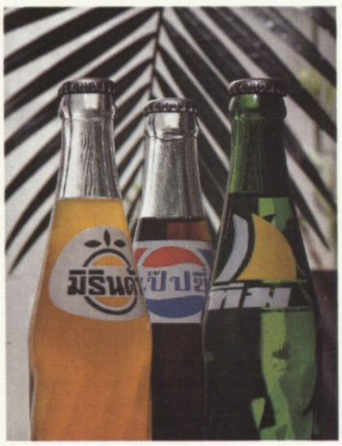
Outperforming the industry by a wide margin, Pepsi-Cola Bottling Group (PBG), the division's flagship company-owned bottling operation, again increased market share, achieved record levels of volume and revenues, and closed out the year with a significant profit improvement. Although the competition tried hard to undermine its industry leadership, PBG remained firmly in control of its strategic objectives, leading the Pepsi-Cola bottling network with hard-hitting marketing programs. This group continually leads the field in testing new promotions, packaging innovations, and selling techniques.

Pepsi-Cola Company's Food Service Division concentrates on expanding sales with chain restaurants and on opening up new opportunities with emerging channels such as convenience stores. Reacting to difficult industry conditions and widespread declines in restaurant traffic, this division also completed a strong performance with growth in profit, volume, and market share. Several important new national accounts were added along with a growing number of regional outlets.

By putting special effort into being a major multibrand supplier, emphasizing not only brand Pepsi-Cola, but other company brands like Diet Pepsi and Mountain Dew, the Food Service Division was able to counter general marketplace deterioration and, in the case of Mountain Dew, conclude another year of very substantial volume growth.

PepsiCo International Today, PepsiCo International has 602 plants in 126 countries. Nearly 80 percent of the division's volume comes through its franchise operation, which sells soft drink concentrate to franchised bottlers. United Beverages International (UBI), the flagship bottler system that manages the company-owned bottling operations outside the United States, provides the rest.

During 1980, overall division case sales volume grew eight percent, which exceeded the industry growth rate by a wide margin. As a result, the division's share of market has risen approximately 22 percent over the last five years. Much of this growth has come from major markets, the strongest being countries in the Mideast like Saudi Arabia and Egypt, and in the developing markets of Africa and Asia, like Nigeria and the Philippines. These countries have grown in excess of 20 percent per year. Others have grown between 10 to 20 percent, including Eastern Europe, Brazil, Ecuador, Mexico, and Venezuela.



These gains have come mostly through continuing programs of investment in the bottlers' basic business framework–the production and distribution network of people and machinery required to increase capacity and sales, as well as through aggressive marketing programs. These investments should continue to have positive effects during the years to come.

In 1980, PepsiCo International franchised nine new markets and refranchised four. Included in these were the first Pepsi-Cola franchises in Sweden, Cameroon, and East Malaysia. Twenty-six new plants were opened, three of which are company-owned. Large plastic bottles were launched in four countries, cans in six, and "high-value" packages in six. New Mirinda flavors were introduced in eight countries, Teem in five, Mountain Dew in three. These introductions accounted for International's flavor line growing significantly in total volume.

One of the best examples of this success is in the Philippines where Mountain Dew, introduced in June, is becoming that nation's second most popular soft drink (after Pepsi-Cola). The Philippine soft drink market is one of the largest in the world and PepsiCo International's second ranking in total volume.

Flavors are still the largest part of the overseas soft drink industry, but colas are growing almost twice as fast. PepsiCo International is concentrating most of its marketing push behind Pepsi-Cola, which is the second leading cola in foreign sales with a one-third share of the cola market.

With 35 plants and 15 thousand employees in 11 countries, UBI sets the pace for PepsiCo International's marketing programs, providing an important example of success that often stimulates positive action by franchised bottlers. In addition, UBI by itself is an important contributor to volume growth, beyond what the division would be able to achieve solely through concentrate sales to franchisees.

Consistent with the division's policy of progress through broadening and developing the distribution network, through opening new territories, adding plants, bottling lines, trucks, and warehouses, is a second strategy of exercising leadership in packaging innovation. For example, when UBI took over a faltering franchise in Barcelona in 1978, a new production line was installed to introduce Spain's first soft drink cans. Next followed a new 1.5 liter "value package," leading a complete turnaround for PepsiCo in

the Spanish market. In the last two years, UBI's Barcelona operation doubled its volume and the total Pepsi group in Spain increased its market share in food stores by nearly 50 percent.

Special attention was given in 1980 to increasing the contribution of Mirinda orange and Teem lemon/lime flavors. In Brazil, for instance, Teem increased its sales volume seven times and, in nearby Argentina, Teem volume climbed 33 percent. Similar opportunities are available in the development of Diet Pepsi-Cola and Mountain Dew in these and many other markets.

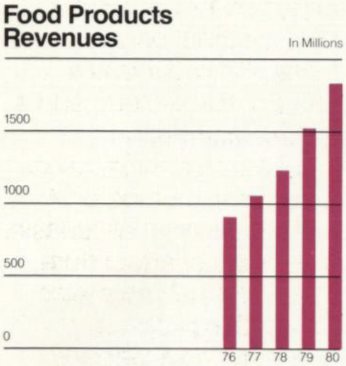
The international soft drink market is about 11.1 billion cases, compared to 5.6 billion cases in the United States. International market growth in case sales has averaged about seven percent over the past five years, compared to under six percent domestically. Per capita consumption, however, is still only one-fifth that of the United States, or a little over 110 eight-ounce bottles per person per year abroad. PepsiCo International's management team, at headquarters and in field locations throughout the world, is positioned to take full advantage of this extraordinary potential.

Food Products

The two divisions constituting this business segment are Frito-Lay, the nation's leading quality snack food company, and PepsiCo Foods International, which manufactures and distributes many similar products in five nations and Puerto Rico.

In 1980, this segment's total domestic and foreign sales rose 21 percent with a profit improvement of 26 percent over 1979.

Although the rapid growth of the food products segment continually outpaces the rest of the corporation, its prospects for future expansion are still promising. Innovations in product and packaging development, combined with exceptional marketing and distribution, are the ingredients for success in this very attractive field.



Domestic Snack Foods Frito-Lay, PepsiCo's largest profit contributor, concluded its twelfth straight year of record earnings. By any criterion, its growth and profitability have been extraordinary.

Frito-Lay is now extremely well-positioned to continue to make strong advances in the over $12 billion snack food market. While its sales grew sharply in major product, trade, and geographic business segments, the company took actions to guarantee a strong base for future growth.

For example, a new development for Frito-Lay in 1980 was the acquisition of GrandMa's Foods, Inc., an Oregon-based manufacturer of quality cookies and snack bars with a unique product line and very high potential. This acquisition further extends the number of entries that Frito-Lay has placed in the large baked goods category. In 1981 the company will begin to test fully the potential of these added lines.

While all major Frito-Lay products are enjoying growth in volume and revenue, the snack food market itself, ignited by vigorous competition, is glowing with new life. In 1980 the market grew about 16 percent in dollars and six percent in pounds. Pacing that development with even stronger growth of over 20 percent in dollars and 14 percent in pounds, Frito-Lay is investing at record levels in research and development, and in other business building programs.

Tostitos brand crispy round tortilla chips have broken all sales records for new products, creating unprecedented growth in overall tortilla chip consumption. In its first year of national distribution, the product exceeded its sales goals and topped $140 million in retail sales.

Frito-Lay's existing brands also contributed importantly to volume growth for the company. For example, Lay's brand and Ruffles brand potato chips are showing outstanding growth. As a category, potato chips are the largest segment of the snack industry—and Frito-Lay has the only major brands showing consistent growth in market share.

In regard to new products, extensive research has led to the development of two snack ideas currently being market tested: in New Orleans, Biddles brand crispy rice chips; and in Columbus, Ohio, Tiffles brand crispy corn chips.

In 1981, Frito-Lay is expanding nutritional labeling for all products on a national basis.

This program informs our consumers of the nutritional content of Frito-Lay products by providing full nutritional data on the backs of packages.

Frito-Lay's renowned store-door delivery system was again strengthened in 1980 with the addition of 800 salespersons to a force that is now over 8,700 strong and makes 70 thousand sales calls a day. Even though fuel costs have risen sharply, the company has demonstrated that store-door marketing actually has become less expensive, over time, through the effects of volume growth, better route management, and productivity improvement.

To support sales growth, Frito-Lay opened three plants in late 1979 and in 1980, which alone increased potential capacity by nearly 20 percent. The Charlotte, North Carolina, plant officially opened during the spring, and the Killingly, Connecticut, and Frankfort, Indiana, plants began production late in the year. Construction has just started on a new plant in Rosenberg, Texas, and another plant in the far west is in the planning stage. In addition, major expansions were completed at three other plants, and construction started on 30 new distribution centers.

Within its industry, Frito-Lay is the leading innovator in manufacturing, engineering, and basic research, and has developed its own production, packaging, and waste treatment systems. For instance, the treatment system at the Frankfort plant, equivalent in capacity to a system for a city of 80,000, is so effective that treated wastewater is discharged directly into a creek, fully meeting rigid local standards. The company has also effectively integrated new products like meats and baked goods into its existing production system, and has been able to expand and change its distribution system to cope with new products manufactured in many different locations. Behind this is a sophisticated electronic management information and inventory control system, and a computerized vehicle schedule program for more efficient product distribution.

Frito-Lay's product research continues to move forward. Its Research and Development scientists intensified activities in new potato variety development, cloning one thousand different disease-free potato plants. At Frito-Lay research farms in Wisconsin, Alabama, and Texas, the company has experimented in many aspects of agriculture.

In summary, new product introductions, high quality market support behind major brands, the excellence of its store-door delivery system, and a nutrition program that explains the high quality of its snacks combine to further Frito-Lay as a leader in the snack food industry.

International Snack Foods One of PepsiCo's fastest growing divisions, PepsiCo Foods International (PFI) marked a year of significant growth in its key sales areas while preparing to move into promising new segments of the overseas snack market. Gross sales in 1980 grew more than 18 percent over the prior year in spite of the sale of the company's business in Venezuela. This operation's product line of pasta, jams, and sauces did not fit into PFI's long-range strategy.

In 1980, PFI's businesses in Mexico, Canada, Brazil, Puerto Rico, and Spain all continued to set sales and profit records. Production capacity was expanded with the completion of two new plants during the year: The Saltillo Plant in Mexico began producing in the fourth quarter, and the Itu Plant in Brazil was running by year-end. As a consequence, 450 new sales routes will be added in Mexico and, in Brazil, the new facility will enable the company to handle the phenomenal growth in demand that has, so far, outstripped production capacity.

By the end of 1980, the Mexican Sabritas business had doubled its sales in just two years, requiring a change in organization structure to improve control and management of the continually growing business. In Brazil, 1980 unit sales grew 30 percent over 1979 in spite of the earlier capacity constraints, leaving PFI with a leading share of that rapidly growing snack market.

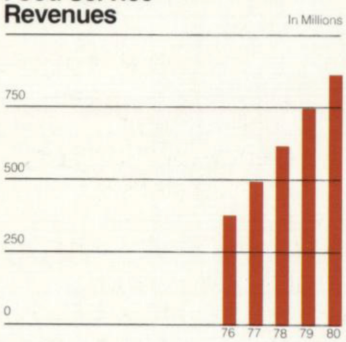
To continue this momentum, PFI plans further capital investment in plants and route trucks—tools of the trade that will expand distribution and sales. Promising new markets in existing territories are the relatively untapped suburban and rural communities. In addition, there is the export potential to nations where PFI production facilities do not exist. During 1980, initial programs to export semifinished snacks from Spain to countries such as Norway, Finland, and Kuwait were most encouraging.

The company is constantly looking for new markets to develop and for new ways to merchandise its products, particularly in nations where there is the built-in leverage of

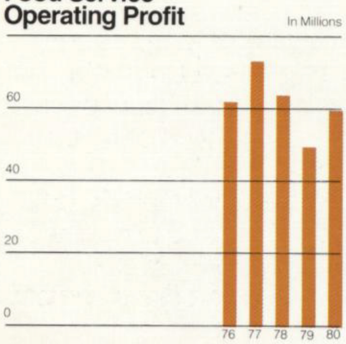
sister PepsiCo companies. In its existing territories, PFI is well-situated for continued growth in sales and in market share, and plans continued operating improvements and a healthy return on investment.

Food Service

Food Service Revenues



Food Service Operating Profit



PepsiCo's Food Service Division comprises two companies: the Pizza Hut and Taco Bell restaurant chains. Despite a year of rising food costs and minimal growth in consumer disposable income, both businesses completed very good years, with their combined sales growing 17 percent and profits improving 19 percent.

In 1980, PepsiCo named Donald N. Smith as president of the Food Service Division. Mr. Smith came to the corporation from Burger King, where he was division president and chief executive officer. Prior to that, he spent 12 years with McDonald's restaurants, serving finally as senior executive vice-president and chief operations officer. Altogether, he has over 22 years in the food service business.

Under the new Food Service Division organization, overseas development for the two chains will be directed by a new international group—PepsiCo Food Service International. Specific strategy is being developed to achieve rapid growth abroad. This overseas expansion will call for careful adaptation to local conditions while retaining the basic format and trademarks that have made our food service businesses successful.

Pizza Hut The year was an extremely important one for Pizza Hut, Inc., the food service industry's preeminent pizza and pasta restaurant chain. During the last half of 1980, recession notwithstanding, the company achieved the strongest sales volume performance since 1975; real volume per restaurant was up nearly 10 percent over the same period in 1979. Key to this success was the nationwide introduction of Pan Pizza, begun in late 1979. All Pizza Hut locations, both company-operated and franchised, were offering this highly popular product by May, 1980, with strong advertising support during the balance of the year.

Success was attributable not only to the popularity of Pan Pizza, but to an important 37 percent increase in television advertising, improved service, and a significant improvement in quality. A boost in sales started during late July and August when, for the first time, advertising emphasized the carryout part of the business. A larger increase in advertising is planned for 1981 with the help of a new franchise agreement that provides for major expenditures for cooperative local television advertising. This will be in addition to established national advertising. Commercials will be aimed at regional markets, with emphasis on quality, value, and individual products.

In a rapidly growing industry like fast-food service, a field that went from 22 thousand restaurants in 1972 to 80 thousand by 1980, Pizza Hut's vital signs are most encouraging for the new decade. In fact, average sales growth for the year exceeded that of its four largest competitors by a notable margin. A number of measures are being taken to help ensure that this momentum endures.

Plans include improvements in decor and equipment layouts as well as menu innovations and increased productivity. Both improved sit-down dinner and self-service "fast lunch" variations are being tested. Improved facilities for carryout pizza, new pasta, sandwiches, and the introduction of hot bread and wine in redecorated warm, cheerful interiors are all part of a plan to position Pizza Hut for further growth. The company intends to incorporate the most successful attributes of the motif and menu tests into an improved concept that can be rolled out in selected markets.

Generally, there will be more attention paid to improving existing Pizza Huts than to opening new ones. With Pizza Hut's approximately 1,900 company locations, this refurbishing is expected to spread over 36 months.

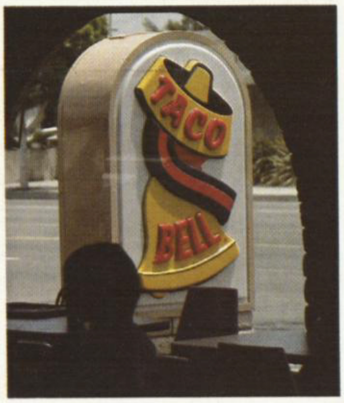
Overall plans are based upon four basic principles. Pizza Hut means to establish a new, positive image for the 'eighties. The system, both company-owned and franchised restaurants, will be managed as one organization. Food quality and pleasant service will continue to receive strong focus, with the objective of an even better dining experience. Finally, marketing efficiency, commensurate with PepsiCo's high standards, will continue to be improved and strengthened.

Pizza Hut people are at the heart of this undertaking. With the closing of area offices, area supervisors will be working in the customer areas of their restaurants. Salary

upgrading will be continued during 1981 and comprehensive new training programs are being set into motion. Results already look promising, with employee turnover down and customer retention up.

As the United States economy strengthens, so also will the restaurant industry. Pizza is expected to continue to be a growing business and Pizza Hut's share of both dollar volume and dining occasions should be generous.

Taco Bell began the new decade with a firm hold on its leading position in the rapidly expanding Mexican fast-food industry. Total system sales were up more than 21 percent over 1979, while company profits increased by nearly one-third.



Acceptance of Mexican food is growing faster than any other. This advantage was broadened in 1980 with the extension of business into the Northeast; a total of 13 new restaurants were opened in the Hartford, Philadelphia, Pittsburgh, and Baltimore/Washington areas. Their early success indicates that Taco Bell's potential for expansion is without regional bounds. During the year, the chain opened 171 new restaurants for a system total of 1,270 franchised and company-operated restaurants.

The unfavorable economic climate that has troubled the fast-food industry for the last several years continued through 1980 with a squeeze on disposable income and reductions in leisure driving that adversely affected sales growth. As a result, Taco Bell encountered stiff competition in the form of increased advertising, costly sales promotions, and discounting. Still doing better than their industry, Taco Bell's neighborhood locations continued to show a loyal group of repeat customers.

To build volume, Taco Bell set out to improve existing restaurants with an upgraded decor package. Eighty-four of these attractive installations were completed in three major markets during the year. A drive-through concept was also tested in a number of Taco Bell units. Redecoration of half of the company-operated restaurants is planned for 1981, with many more conversions to drive-through, where possible.

National expansion of the Paul Bunyan large-size drink and of the Cinnamon Crispas brand dessert pastry (a cinnamon tortilla) was completed during 1980, and tests of a new Taco Salad Supreme and Nachos were undertaken. Other new products are planned for test in 1981 under the supervision of Taco Bell's Research and Development Department.

Major promotions and specially designed marketing campaigns for key sales regions also helped combat aggressive competition. Taco Bell's radio and television advertising will continue to emphasize the chain's all-fresh, high-quality food, and to improve the simple "Deliciously Different" price/value perception with its two target consumer groups: 18- to 34-year-olds, and teenagers, 13 to 17.

In 1980, Taco Bell focused on its need to find, keep, and develop good people. Employee training and incentives have been improved and, as a result, supervisor turnover has been reduced by one-third.

The company's wholly-owned subsidiary, Bell Foods Services, added five new warehouses for a total of 15, and is now supplying 68 percent of the company-operated restaurants. Plans are to expand this system in order to help control costs in an inflationary environment.

Taco Bell is progressing rapidly with many opportunities to build upon its reputation as a major force in its field.

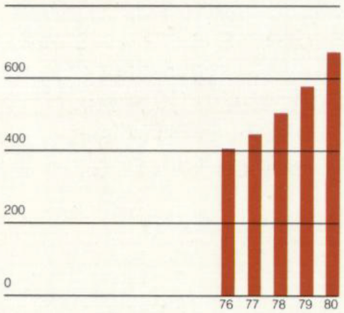
Transportation

PepsiCo's two transportation companies, North American Van Lines and Lee Way Motor Freight, both reported highly improved results in 1980, a turbulent year for the trucking business. This business segment as a whole chalked up revenue growth of 17 percent and an increase in profits of 116 percent.

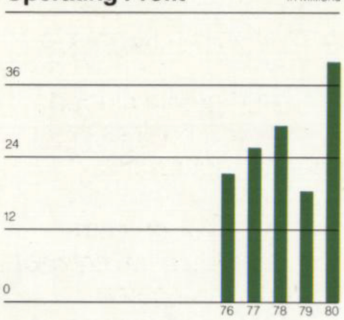
The passage of the Motor Carrier Act of 1980 (MCA) impacted the industry in a number of ways but most significantly by easing trucking company entry into new markets. Prior to enactment of the MCA, lengthy applications had to be completed and approved before the Interstate Commerce Commission would approve a trucker's carrying a particular cargo along a new route. The MCA deregulation relaxed these time-consuming procedures in order to foster increased competition and innovations in service and price.

A company's actual expansion, however, can depend more upon sales, management expertise, and capital equipment than it does upon an approved application. PepsiCo's transportation business, in better condition than the overall industry, is well-positioned for growth in this new operating environment.

Transportation Revenues In Millions



Transportation Operating Profit In Millions



North American Van Lines 1980 was another record year for North American Van Lines (NAVL), with its increased revenues and profits reflecting the company's versatility and strength in a difficult economy.

When housing starts and consumer spending sank in April, indicating a decline in future traffic volumes, NAVL had already instituted tight cost controls and aggressive marketing programs. These were aimed at new business and at existing accounts that tend to be less sensitive to recession. These strategies, and an emphasis on quality service, made significant inroads against the recessive economic situation.

The company's strong sales force and effective market research are key elements for NAVL's continued success under the MCA (described above). While the Act opens up new markets for NAVL, it also creates the potential for other carriers to make inroads into NAVL's base markets. NAVL remains prepared to answer this challenge from its strong marketing position, its experience as an irregular route carrier (not terminal-based) of both special and general commodities, and from its proven leadership as a worldwide household goods mover.

NAVL has already capitalized on growth from new hauling authorities. The company secured over 300 new transportation permits during 1980. With this expansion, some important rate relief, and an increase in government traffic, NAVL revenues grew 17 percent over 1979.

The government segment of the company's New Products Group hauled everything from tank parts to pillows, tent stakes to cake topping. This illustrates NAVL's ability to carry all sorts of merchandise, with service that fits shippers' unique needs. Accordingly, the company plans to extend the services of its New Products Group further into all segments of retail and wholesale business, significantly widening its markets while holding existing ones. A national accounts sales staff is now in place to bolster this effort.

NAVL's High Value Products Group has also expanded into new national accounts, such as large-volume manufacturers of high technology equipment and principal electronic office products companies. This segment grew significantly in 1980 while making reductions in cargo claims and improvements in on-time service.

Finally, NAVL's Household Goods Group also gained market share, especially in national accounts. The favorable effects of the King Tutankhamen advertising program —initiated in 1979 and showing how NAVL "moved the treasures of a King"—and the expansion of already broad agency representation across the United States helped this segment make a record contribution to income.

Overall, NAVL did far better than its competition in 1980, in spite of difficulties, demonstrating strong management and marketing strength and, with easing of the economic situation, the potential for even more positive prospects in the years ahead.

Lee Way Motor Freight Despite the soft economy, 1980 was a year of significant financial improvement for Lee Way, a major transcontinental trucking company. The year was characterized by a variety of encouraging results, most of which were due to improved internal execution and industry price increases.

The general economic slowdown that began in the fall of 1979 was viewed by Lee Way as a major challenge. By emphasizing its superior transit time, the company prepared to take a larger share of the surface transportation market and, by January 1980, it began to demonstrate positive performance when compared with its major competition.

The improved performance of Lee Way's reorganized sales force, accompanied by a new national advertising program stressing the company's service leadership, was the key factor supporting the significant increase in market share. By better segmenting its markets, Lee Way was able to place more emphasis upon selling national accounts and major customers, resulting in impressive sales growth even within the severely depressed automotive industry.

Additionally, Lee Way was able to show important gains in fuel efficiency, improved productivity in terminal labor, and lower maintenance costs, while holding a consis-

tently superior transit time. Still the company's process of improvement is far from over. Internal operations will continually need to be made more effective while management responds to timely opportunities for external growth.

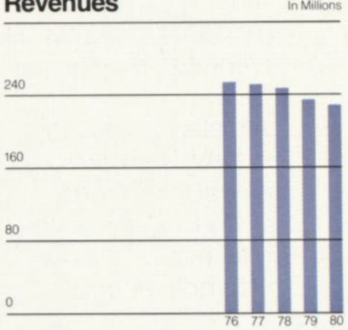
In 1981, with further refinements in cost control and management structure, Lee Way should be able to take full advantage of the Motor Carrier Act of 1980 through the use of more direct routes and expansion opportunities made possible by easier market entry.

Lee Way's 1981 Plan calls for market expansion in the form of several new service lanes, plus a number of new terminals in key markets. These new markets will help Lee Way expand its revenue base, and set the stage for future growth.

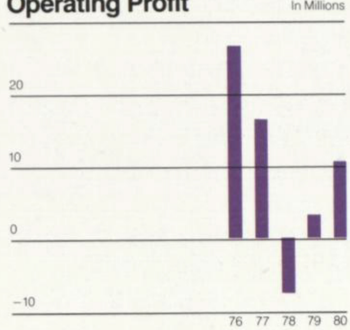
With a stable, experienced workforce and a record of improvements in market share, productivity, and cost control, Lee Way is well positioned to take advantage of economic recovery and the changing structure of the surface transportation business. Already outstripping trends for industry tonnage growth, the company is optimistic that it can achieve continued positive share-of-market performance and improved profitability in 1981.

Sporting Goods

Sporting Goods Revenues



Sporting Goods Operating Profit



Wilson Sporting Goods The leading company in its markets, Wilson Sporting Goods achieved a second consecutive year of earnings improvement. Operating profit in 1980 tripled that of 1979, while return on sales and return on assets employed both increased. Its organizational and product revamping complete, Wilson is now able to concentrate on realizing revenue growth.

Wilson's 1980 sales were slightly below those of 1979, but the 1979 figure included revenue from product lines that Wilson discontinued in 1980. Remaining businesses grew 12 percent during 1980, a significant achievement considering recessionary conditions.

After an extensive assessment of its business opportunities, in 1980 Wilson completed its exit from unprofitable product lines and the elimination of problem inventories. Procedures for collecting receivables were tightened. Management took tighter control of a pruned and redirected organization. Now, the second stage of recovery is under way—a period in which the effectiveness of the sales force will be further enhanced, marketing programs will be improved, and specific plans for improving cost competitiveness will be instituted.

The company's sales force, largest in the industry, has the potential of providing Wilson with a competitive advantage. Efforts in 1981 will be directed at improving this group's productivity through new control systems. A modified incentive plan will improve motivation. In addition, sales force tactical plans have been better tailored to the competitive needs of individual product markets.

Historically, Wilson has maintained leadership in innovative marketing and promotion. During 1980, a variety of interesting new products were developed that should result in improved sales and market share in golf and tennis.

For those golfers who would like to go beyond mere fun, to humble the course as well as their opponents, Wilson has introduced the Aggressor Investment Cast Competition golf clubs, equipment manufactured to the exacting standards of the aerospace and surgical tool industries.

In tennis, the first large-head racket with Wilson's exclusive Perimeter Weighting System is the Cobra, designed to put more power behind the ball with more control and less twisting. Also incorporating the latest technology are the Wilson Triumph aluminum tennis racket and the new Wilson Legacy racket, both superior, exciting contributions to the game.

Wilson's advertising strategy should create more excitement and be better targeted to consumer demand. More innovative promotional efforts are being developed, timed to fit retailers' needs. Superior marketing should continue to provide Wilson with a competitive edge.

In contrast to the usual trends of a recessionary year, Wilson managed its inventories and receivables to lower levels and maintained a healthy balance sheet. This managerial soundness, the company's leading position in its industry, its very successful program for overseas expansion, heightened sales force effectiveness, and upgraded marketing programs all suggest that 1981 will be a year of further growth for Wilson.

PepsiCo Worldwide

Symbolizing PepsiCo's growing presence in Europe, a bright new truck services soft drink vending machines in a medieval village one-half hour from Frankfurt, Germany–a less developed but high-potential market.


ÉPICERIE
Magasin du faubourg
209
FRITO-LAY CANADA
FRITO - LAY

The Frito-Lay route sales truck is as familiar a feature in front of a traditional French Quarter village shop near Montréal as it is at markets and convenience stores across the United States. PepsiCo Foods International is one of the corporation's fastest growing divisions.

One way to get your product up trails where trucks won't go is by motorized ricksha, a popular and colorful transport in the Philippine islands. PepsiCo's business in the Far East is firmly established in key countries with tremendous potential for gains in both volume and market share.

During the dawn meeting of Mexico City route sales drivers, a PepsiCo Foods International fleet serviceman updates rolling billboards that tie in with highly successful point-of-purchase and television advertising. By the end of 1980, Sabritas had doubled its business in just two years. Distribution is still being expanded.

Sabritas
el sabor que me vuelve LOCO!
Palomitas
Cheetos
Sabritas
¡CON QUESO!
A QUE NO PUEDES COMER SOLO UNA
8774 AE

Taco Bell is a major force in the Mexican fast-food industry. To encourage higher volume, 84 existing restaurants in three key markets were fitted with an upgraded decor package in 1980: English oak, upholstered booths, hanging plants, ceramic tiles, and solid wood custom arched window frames highlight the new theme. Redecoration of about half of the company-owned restaurants is planned for 1981.

Pizza Hut, North America's preeminent pizza and pasta restaurant chain, has exciting potential for foreign expansion. The company's successful basic format and trademarks prove as popular in Mexico City suburbs as in the Zona Rosa, a major downtown business and tourist district.


Pizza Hut
Sandwich Pizza Hut
Nueva Barra de Ensaladas
44


بيبسي
PEPSI
بيبسي
خدمة موبيل

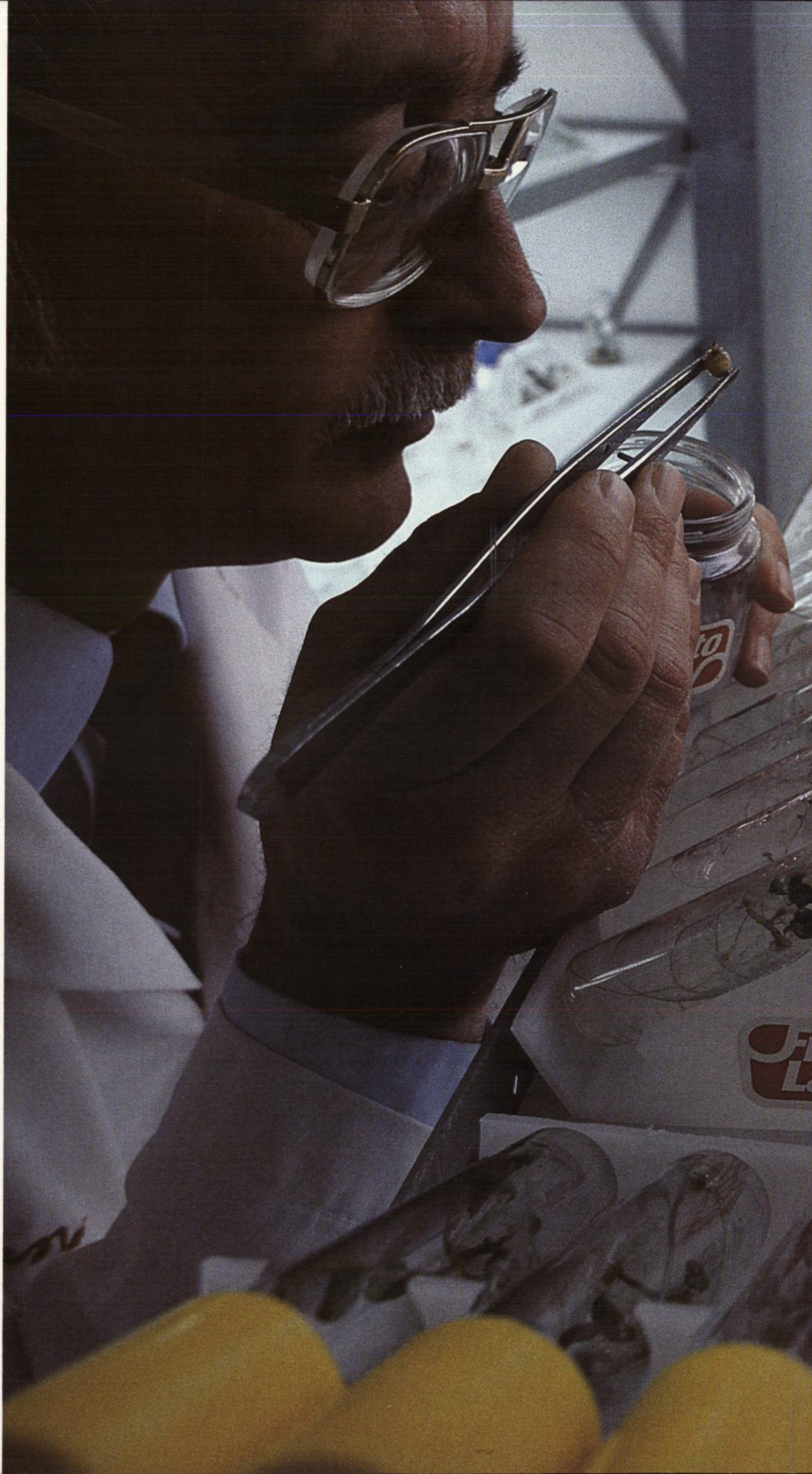
Prominent above a principal square leading to central Cairo, the Pepsi name and allied products stand out in the noonday sun. PepsiCo International's Middle East markets have shown some of the division's strongest growth. Expectations for the future are high.


northAmerican
VAN LINES
ELECTRONICS
EXHIBITS

The day's last light and 18 degrees below zero in downtown Montréal: One of North American Van Lines' special electronics exhibits vans rolls carefully to its destination. NAVL handles a wide variety of shipments throughout the United States and worldwide.

Lee Way Motor Freight is a rapidly expanding transcontinental motor carrier with direct service to and from 27 states as well as Canada and Mexico. Handling seagoing container freight is one of its many new developing businesses.

Near Dallas, Texas, Research Section Manager John W. Carmichael, Ph.D., a specialist in genetics and plant pathology, is one of 48 scientists at work in Frito-Lay Research and Development. In the forefront of agricultural development, the company has cloned over 1,000 disease-free plants specially suited to potato snack preparation.



Frito Lay
17-6
Frito Lay

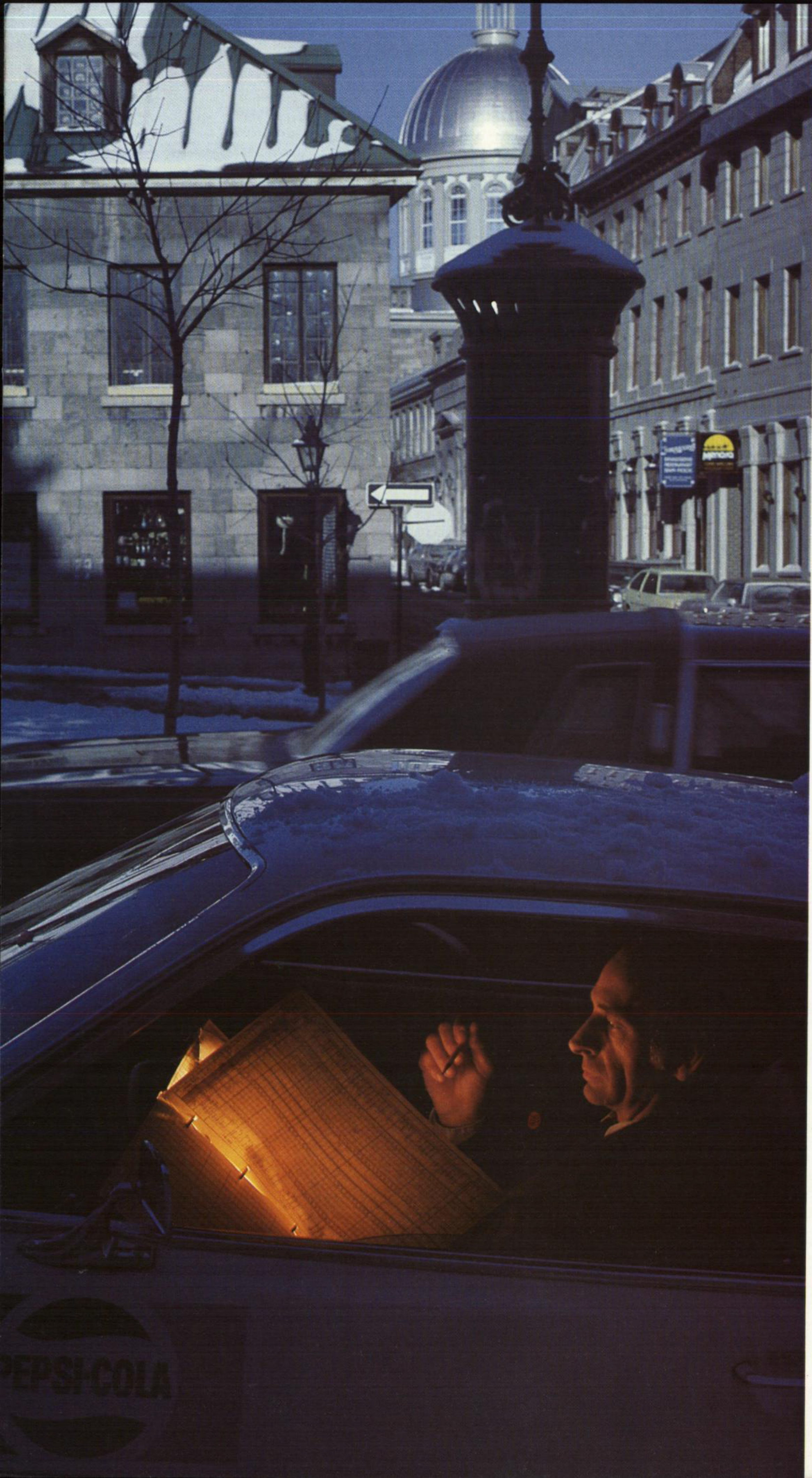
Wilson Sporting Goods is known for quality around the world. As the European tennis market is rapidly expanding, with Germany in the vanguard, a leading retailer in Barcelona, Spain arranges his window with Wilson as the dominant line.

One of Pepsi-Cola Company's successful promotions in the United States: A Christmas tie-in with Mattel Toys, featured in thousands of food and toy stores and accompanied by newspaper and television advertising, significantly increased share of market and sales volume.


PEPSI
diet pepsi
PEPSI LIGHT
PEPSI-COLA
$1.19
Pepsi
Diet
Light
99¢
MOUNTAIN DEW

Within 100 meters of Magellan's landfall, Mountain Dew and Pepsi-Cola are carried ashore from shallow-draft outriggers; daily deliveries are scheduled for dawn and sunset on the Island of Cebu in East Central Philippines.


DRINK
PEPSI-COLA

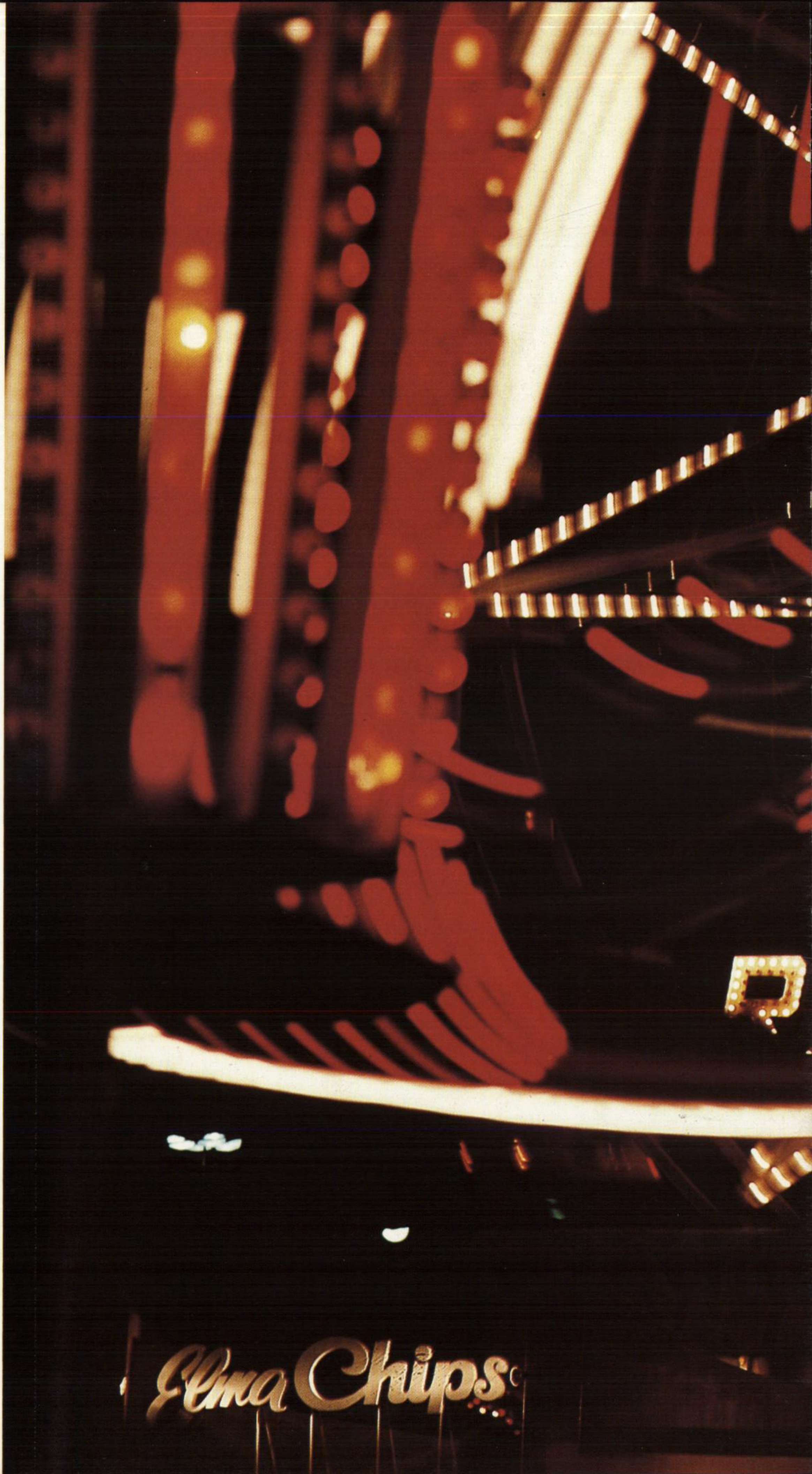


In the dying light of a winter afternoon in Old Montréal, Pepsi-Cola salesman Corad Guay, a 25-year veteran, fills in his computer-monitored route page account. This new system takes the guesswork out of marketing packaged goods by ensuring that all the product on a truck is presold 48 hours before leaving the plant. The computer also segments sales by promotion, size, flavor, and type of outlet.

Innovative sales and distribution techniques are one of the most visible characteristics of Far Eastern markets. More than promotion, transportation by any means, such as river launch in Bangkok, is the key to getting product from the plant into the hands of the purchaser.


คนองชล
Esso
เป๊ปซี่

From the eye of the Roda Panoramica, a Ferris wheel in a big Sao Paulo amusement park, PepsiCo Foods International's trademark face glows for miles. PFI has the exclusive snack food franchise in the park, reflecting the company's tremendous popularity and success in the rapidly growing Brazilian market.




ODA PANORA

Financial Review

Analysis of Operations

PepsiCo's ten-year unbroken trend of improved revenues and net income continued in 1980. Sales and other operating revenues rose 17 percent in 1980 after an increase of 18 percent in 1979. A significant portion of the substantial growth in revenues can be attributed to gains in unit volumes, particularly in the beverage and food products businesses. For all business segments combined, physical volume increases accounted for approximately 40 percent and 50 percent of the revenue gains in 1980 and 1979, respectively.

Cost increases, stimulated by inflation, and additional expenses continued to put pressure on margins in 1980, as in the previous two years. In particular, higher fuel costs in 1980 and 1979 significantly affected the transportation businesses and distribution costs in all operations. Productivity gains and price increases offset these cost increases in 1980, allowing operating margins to improve, whereas in 1979 operating margins had declined. (The impact of inflation is further reviewed under *Discussion of the Effects of Inflation* below.)

Marketing, administrative, and other expenses increased 18 percent in 1980 after an increase of 23 percent in 1979, as heavy spending continued in support of PepsiCo's product and marketing programs. Total advertising, for example, increased 17 percent to $358 million in 1980 after a 19 percent increase in 1979, reflecting a higher level of advertising as well as inflation in media costs. A significant part of the additional spending in 1980 was in domestic beverage operations, reflecting intense competitive activity.

Foreign currency gains for 1980 and 1979 amounted to $11.9 million and $5.7 million, respectively, compared with a loss in 1978 of $11.6 million which was due principally to Swiss franc debt retired in December 1978.

Profits before interest and taxes increased 20 percent in 1980, after a gain of 12 percent in the previous year. Food products paced the profit growth, as in 1979, accounting for nearly half the increase in profits from operations. Substantially better performance in transportation and food service contributed to the sharp acceleration in growth rate.

Net interest expense (after deducting interest income) increased $34.6 million in 1980, following a $17.4 million increase in 1979. In addition, $11.2 million of interest costs were capitalized in 1980, as required by Statement of Financial Accounting Standards No. 34. The increased costs in both years primarily reflected higher debt levels to support growth in operations, and to a lesser extent, higher interest rates. Debt issued to finance the repurchase of 3.6 million shares of PepsiCo capital stock in late 1979 also contributed to the higher interest expense, although the net effect of the share repurchase was to increase earnings per share modestly in 1980.

The provision for U.S. and foreign income taxes was 40.8 percent of income before taxes in 1980, 38.9 percent in 1979, and 43.6 percent in 1978. The higher effective rate in 1980 resulted primarily from losses sustained in certain development markets overseas for which PepsiCo receives no current tax benefit. The lower rate in 1979, compared with 1978, reflected the two percentage point decrease in the U.S. statutory corporate tax rate and an increased proportion of earnings from foreign operations taxed at rates lower than the U.S. rate.

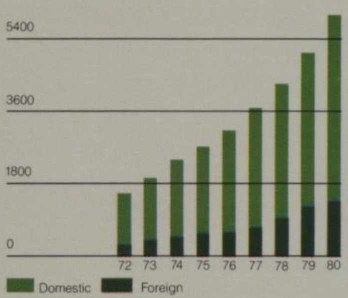
Net income before an extraordinary charge in 1980 rose 10 percent to $291.8 million, after a 17 percent increase in 1979 and a 15 percent increase in 1978. However, after adjustments to exclude certain special provisions and non-recurring items in 1978, net income increased 12 percent and 19 percent in 1979 and 1978, respectively.

As stated in Note 9 to the Consolidated Financial Statements, in 1980 PepsiCo recorded an extraordinary charge of $17.8 million to write off certain operating rights in accordance with Statement of Financial Accounting Standards No. 44. The Statement required the write-off of operating rights of motor carriers, to reflect enactment of the Motor Carrier Act of 1980 which substantially deregulated the trucking industry.

While PepsiCo continues to emphasize efficient asset utilization, return on assets employed dropped back to the 1978 level of 14.7 percent, down from 15.3 percent in 1979, primarily as a result of the high level of new investment in both 1980 and the latter part of 1979. However, at 21.7 percent, return on average shareholders' equity (before the extraordinary charge) remained close to 1979's level of 21.8 percent, up from 20.8 percent in 1978, as a result of PepsiCo's increased financial leverage offsetting the decline in return on assets employed.

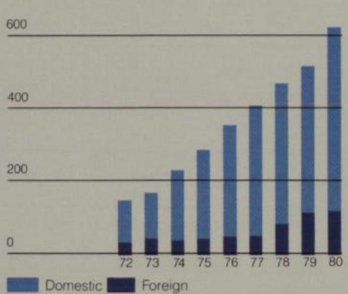
Domestic and Foreign Revenues

In Millions



Domestic and Foreign Operating Profits

In Millions



Business Segments

Revenues (in millions)	1980		1979		1978	
	$	%	$	%	$	%
Beverage	2,367.7	40	2,013.7	40	1,698.4	39
Food products	1,830.7	31	1,518.5	30	1,231.8	29
Food service	872.7	14	748.3	15	622.1	14
Transportation	673.9	11	575.4	11	501.1	12
Sporting goods	230.2	4	234.7	4	246.6	6
Total	5,975.2	100	5,090.6	100	4,300.0	100
Foreign portion	1,335.2	22	1,161.9	23	902.2	21
Operating Profits (in millions) [1]						
Beverage	274.7	44	254.0	49	227.0[2]	48
Food products	245.8	39	195.4	37	158.2[3]	34
Food service	59.5	9	49.9	10	64.1	14
Transportation	39.9[4]	6	18.5	3	29.3	6
Sporting goods	10.9	2	3.4	1	(7.5)[5]	(2)
Total	630.8	100	521.2	100	471.1	100
Foreign portion	131.8	21	116.7	22	83.1[2]	18

Investment (in millions)

	Identifiable Assets			Depreciation and Amortization Expense			Capital Expenditures[8]		
	1980	1979	1978	1980	1979	1978	1980	1979	1978
	$	$	$	$	$	$	$	$	$
Beverage	1266.0	958.6	749.9	56.3	45.9	35.0	140.4	100.9	123.8
Food products	791.9	640.1	475.9	49.4	37.0	31.8	176.1	159.5	75.3
Food service	520.4	474.0	423.1	34.8	29.8	24.5	83.4	71.5	99.5
Transportation	292.3	292.4	279.9	21.5[4]	20.0	17.3	32.7	37.2	46.6
Sporting goods	229.5	236.2	268.5	4.9	5.0	4.2	4.1	4.5	8.7
Corporate	317.4[6]	286.3[6]	222.1[6]	5.3	4.4	4.2	9.0	13.3	10.6
Total	3,417.5	2,887.6	2,419.4	172.2	142.1	117.0	445.7	386.9	364.5
Foreign portion	1,055.6[7]	792.0[7]	589.5[7]	36.4	27.9	22.7	119.6	78.2	72.3

[1] Excludes general corporate expenses and interest expense (net) which totaled as follows (in millions); 1980, $138.0; 1979, $88.1; 1978, $75.5.
[2] Excludes an $8.8 million expense related to receivables from Iran.
[3] Excludes a $13.3 million credit for settlement of litigation.
[4] Excludes a $17.8 million extraordinary charge related to write-off of operating rights (see Note 9 to Consolidated Financial Statements).
[5] Includes a $9.0 million expense related to receivables and inventory.
[6] Corporate assets are principally marketable securities and administrative office buildings.
[7] PepsiCo's investments in foreign subsidiaries and branches outside the U.S. were $415.2, $313.0, and $297.9 in 1980, 1979 and 1978, respectively.
[8] Excludes expenditures for returnable bottles and cases.

Beverage: Combined revenues for domestic and foreign beverage operations increased 18 percent over 1979, following an increase of 19 percent in 1979. The revenue growth in 1980 reflected both price and volume increases, and was particularly large in company-owned bottling operations. Domestic bottlers' case sales continued to outpace a sluggish market in 1980, although the four percent rate of growth slowed somewhat in comparison to the seven percent rate in 1979, which had seen strong gains in market share. Overseas case sales growth of eight percent in 1980, while substantial, also slowed from 1979's 13 percent rate, reflecting difficult economic conditions in many countries and exceptionally poor weather during peak summer months in several key markets.

Total costs and operating expenses for domestic and foreign operations rose 19 percent in 1980 and 20 percent in 1979, with a significant portion of the increase in 1980 representing higher sugar and distribution costs. The increases in both years also resulted from heavier

expenditures for advertising and other marketing programs, especially in domestic operations where the level of competitive activity escalated sharply.

Operating profits rose eight percent in 1980 after a 12 percent increase in 1979. Domestic profits grew more slowly than revenues, reflecting the cost pressures described above, while overseas beverage profit growth also slowed from the rapid pace of 1979. In late 1979 and throughout 1980, PepsiCo introduced new soft drink packages as a major competitive tool in overseas markets, supported with heavy investment spending and promotional pricing in PepsiCo's overseas bottling operations, all of which tempered profit gains.

Food Products: The food products segment reported a revenue increase of 21 percent for 1980 after a 23 percent increase in 1979, with the strong unit volume trend of the last two years continuing in 1980. Domestic volume grew 14 percent after an 11 percent gain in 1979, including the impact of several new products which accounted for about half the growth in 1980. Overseas volume also continued strong, growing 11 percent in 1980 despite the disposition of an overseas operation, compared with 29 percent in 1979. Operating profits increased 26 percent after a 24 percent gain in 1979. Overseas profits grew somewhat faster than the total segment, reflecting improvement in several countries and continued strong performance in Mexico where rapid development of the business continues.

Food Service: A revenue increase of 17 percent over 1979 was recorded by the food service business segment, following a 20 percent increase in 1979. The sales gains are attributable to improved average store revenues, which increased nine percent in 1980 compared with seven percent growth in 1979, and to an increase in the combined number of company-owned Pizza Hut and Taco Bell stores (four percent increase over the prior year at the end of 1980, following an eight percent increase in 1979). Operating profits increased 19 percent for the year versus 1979, reflecting improved store operating margins, after a 22 percent decline last year. The operating margin improvement is attributable, in part, to real growth in average sales per store of one percent, following a three percent decline in 1979.

Transportation: PepsiCo's transportation business segment reported a revenue increase of 17 percent in 1980. In 1979 revenues had increased 15 percent. Operating profits more than doubled in 1980, as compared with 1979 when operating profits had declined 37 percent from the prior year. (The extraordinary charge referred to in Note 9 is not included in this segment information.) North American Van Lines operations showed substantial gains in revenues and profits in 1980, although at a more modest pace than in 1979–a year of significant volume gains. Volume increased slightly in 1980, despite the economic recession, while profit improvement came primarily from favorable product mix, tight control of expenses and tariff increases. Lee Way Motor Freight results also improved significantly after the loss in 1979. With volume slightly higher than 1979, Lee Way performed substantially better than the overall industry. Management actions to increase productivity and tariff increases were largely responsible for the profit improvement in 1980, whereas inadequate tariff relief, the Teamsters' strike and costs to improve service had adversely affected results in 1979.

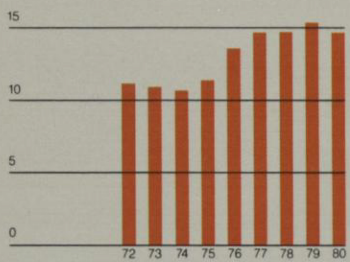
Sporting Goods: The sporting goods segment recorded a decline of two percent in revenues in 1980, following a five percent decline in 1979. The decline principally reflects management actions to prune certain low-profit product lines. The operating profit in 1980 was more than triple the 1979 level, which had in turn approximately doubled 1978's profit before a special provision for receivables and inventory. An increased proportion of more profitable products in the sales mix and tight operating expense control accounted for the profit improvement.

Revenues and profits from domestic segments in 1980 grew faster than those from overseas businesses, reversing the prior year's trend. Domestic operating profits were up 23 percent, reflecting the strong performance of domestic snack food and transportation operations. Conversely, foreign operating profits grew a more modest 13 percent, reflecting slower profit growth in overseas beverage operations.

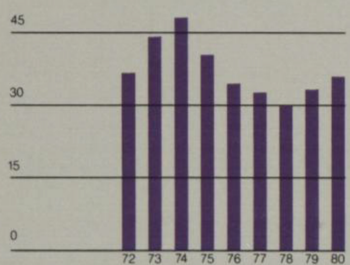
Capital Spending

To facilitate the growth of PepsiCo's business, net investment in property, plant and equipment has doubled since 1977, from $0.9 billion to $1.8 billion. Expenditures for plant and equipment (including capital leases) reached a record level of $446 million in 1980, up from $387 million in 1979 and $365 million in 1978. Much of this spending was for expansion of operations, with the major part for additional food product and bottling capacity. For instance, Frito-Lay's capacity has expanded by more than a third over the past two years to permit continuing rapid growth. Similarly, six high-volume bottling lines were added in company-owned overseas operations in 1980, increasing capacity by nearly 20 percent. In addition to these plant and equipment

Return on Assets Employed Percent



Total Debt as a Percent of Capital Employed Percent



expenditures, major new beverage package sizes were introduced in five markets in Europe and the Far East, resulting in substantially higher purchases of returnable bottles and cases in 1980, at $137 million compared with $63 million and $47 million in the previous two years.

Liquidity, Financial Resources and Capital Structure

PepsiCo is committed to long-term growth by investing funds retained by the Company in suitable projects which show attractive potential returns. Additional funds from external sources are used as necessary, depending on the volume of such projects, and consistent with maintaining flexibility and sound financial standing. PepsiCo's mix of borrowings will vary from time to time as the Company seeks to maintain a maturity structure which it believes will minimize long-run financing costs.

Funds from operations grew steadily to $493 million in 1980, up from $446 million in 1979 and $378 million in 1978. Dividends of $115 million were paid to stockholders, 12 percent higher than in 1979, while remaining funds retained in the business were used primarily for capacity expansion. In 1980, internally generated funds were supplemented by additional borrowings, including $150 million of 10⅛% six-year notes issued in June. As a result, the ratio of PepsiCo's total debt to total capital employed increased to 35.6 percent in 1980 from 32.9 percent in 1979. Capital spending in 1979 was funded largely from operations, although total debt to total capital employed still increased from 29.4 percent in 1978 as a result of issuing additional debt to repurchase 3.6 million shares of capital stock at a cost of $95 million.

The high level of capital spending is expected to continue in 1981, financed primarily with funds from operations and some additional borrowing. Management currently anticipates refinancing the long-term debt maturing in 1981, and may undertake additional refinancing depending upon conditions in the credit markets.

PepsiCo retains a high degree of financial flexibility, based on a strong and stable flow of funds from operations. The Company also has unused bank credit facilities, which totaled $495 million at the end of 1980, and a strong credit standing which facilitates continued access to world capital markets. In addition, significant investments in marketable securities in Puerto Rico can be repatriated at PepsiCo's discretion upon payment of a modest tollgate tax.

	1980	1979
	(in thousands)	
Short-term borrowings–domestic	$ 31,670	$ 1,673
–foreign	72,534	59,542
Total short-term borrowings	104,204	61,215
Long-term borrowings–current	6,290	11,693
–non-current		
–senior	612,720	443,295
–subordinated	8,843	12,940
Total long-term borrowings	627,853	467,928
Total borrowings	732,057	529,143
Capital lease obligations		
–current	8,650	8,125
–non-current	160,146	162,715
Total capital lease obligations	168,796	170,840
Total debt (including capital lease obligations)	900,853	699,983
Shareholders' equity	1,428,923	1,263,649
Total debt and shareholders' equity	2,329,776	1,963,632
Deferred income taxes and other liabilities and deferred credits	201,643	161,421
Total capital employed	$2,531,419	$2,125,053

Discussion of the Effects of Inflation

The high rates of inflation that have plagued the American economy over the past decade continued into 1980, further eroding the purchasing power of the dollar and distorting the conventional measures of financial performance based on historical cost accounting. To assist readers of financial statements in assessing the impact of inflation, the Financial Accounting Standards Board (FASB) issued Statement No. 33, *Financial Reporting and Changing Prices*, which requires the presentation of certain information on the effects of inflation on business enterprises under two different methods: *constant dollar* and *current cost*.

The constant dollar method, applied initially in 1979, is intended to measure the impact of *general* inflation on PepsiCo's operations. The restated amounts are referred to as constant

dollar amounts since the conventional measures of earnings and capital, which are expressed in dollars of varying purchasing power (historical dollars), have been restated into dollars of the same purchasing power using the Consumer Price Index for All Urban Consumers (CPI-U).

Required for the first time in 1980 annual reports, the current cost method attempts to measure the effects of changes in the specific costs of PepsiCo's assets from the dates they were acquired to the present. Several methods were used in estimating these amounts, including direct pricing and indexing, which are intended to reflect costs to replace existing assets with identical assets rather than with different or technologically improved assets. Current costs differ from constant dollar amounts to the extent that the specific costs of PepsiCo's inventories and property, plant and equipment have increased more or less rapidly than general inflation.

The accompanying statement of earnings and five-year summary of selected data reflect certain adjustments to the amounts shown in the primary financial statements using both the constant dollar and current cost methods. Since both methods inherently involve the use of assumptions, approximations, and estimates, readers are cautioned that the following information should not be viewed as precise indicators of the effects of inflation on PepsiCo's operations.

Under the guidelines of Statement No. 33, only cost of sales and depreciation expense are required to be adjusted in the statement of earnings, since these are the items of income which are most affected by inflation. During inflationary periods, these adjustments will usually result in lower earnings than reported in the primary financial statements.

The marginally lower cost of sales amount on a current cost basis, compared to constant dollar, reflects the fact that, for the most part, the high rates of inflation in recent years have outpaced the increase in the specific costs of PepsiCo's inventories. In other words, for the average two-month period between the time PepsiCo produces and the time it sells its inventories, the increase in cost to replace those inventories has been slightly less than the increase in general inflation. Although pricing and productivity improvements have helped offset these higher inventory costs, it should be noted that the ability of a company to recover cost increases by raising selling prices is subject to normal competitive factors and regulatory conditions.

Unlike inventories, the increase in the current cost of PepsiCo's fixed assets since the time of acquisition, which extends over several years, has been greater than the increase in general inflation as measured by the CPI-U. Consequently, depreciation on a current cost basis has exceeded the same amount on a constant dollar basis. Because of the significantly longer lives of property, plant and equipment, compared to inventories, this increase in depreciation on a current cost versus constant dollar basis more than offsets the comparative decrease in cost of sales, causing income from continuing operations under current cost to be lower than under constant dollar.

In accordance with Statement No. 33, restated net income does not reflect an adjustment to historical dollar income tax expense, because present tax laws do not allow deductions for increased depreciation expense and cost of sales due to inflation. As a result, the effective tax rate for 1980 and 1979 rises from 40.8 and 38.9 percent, respectively, to 48.5 and 45.5 percent on a constant dollar basis and 50.5 and 48.4 percent on a current cost basis. PepsiCo believes this result supports the contention that corrective tax legislation is urgently needed to better reflect existing economic conditions and to help stimulate real economic growth.

Besides the impact of inflation on the conventional measures of net income, inflation also affects monetary assets and liabilities, such as cash, receivables and payables. During periods of inflation, monetary assets lose purchasing power since they will buy fewer goods or services as the general level of prices rises. Conversely, holders of monetary liabilities benefit during inflation because cheaper dollars are used to satisfy these obligations in the future. For example, a 1970 debt of one dollar can be satisfied with the payment of a 1980 dollar which has the equivalent purchasing power of 47 cents.

Since PepsiCo had net monetary liabilities during the year, a net gain in purchasing power is included in the adjusted statement of earnings under both the constant dollar and current cost methods. This gain, which amounted to $100,979,000 in 1980 and $79,255,000 in 1979, should be viewed as part of the overall impact of inflation on operations. Since the interest rate charged by lenders is intended, in part, to compensate them for lost purchasing power during inflation, historical dollar interest expense should theoretically be reduced by the purchasing power gain from holding net monetary liabilities. However, the FASB requires that this gain be shown separately from net income in the statement of earnings.

Statement No. 33 also requires that increases in current costs based on specific prices of inventories and property, plant and equipment during the year be compared with the amount of such increases based on changes in the general price level. Over the past two years, the rate of general inflation, as measured by the CPI-U, has increased at a faster pace than the specific prices of PepsiCo's assets, resulting in a net decrease in the current costs of our assets after inflation in both 1980 and 1979. This is not surprising, considering that the CPI-U reflects such items as food, housing, and fuel – the costs of which have increased dramatically in recent years.

Statement of Earnings
Adjusted for the Effects of Inflation
For the Years Ended December 27, 1980 and December 29, 1979

(in thousands except per share amounts)

	1980			1979		
	As Reported in the Primary Financial Statements (Historical Cost)	Adjusted for General Inflation (Constant Dollar)	Adjusted for Changes in Specific Prices (Current Cost)	As Reported in the Primary Financial Statements (Historical Cost)	Adjusted for General Inflation (Constant Dollar)	Adjusted for Changes in Specific Prices (Current Cost)
Net sales and other operating revenues	$5,975,220	$5,975,220	$5,975,220	$5,090,567	$5,090,567	$5,090,567
Cost of sales, excluding depreciation	2,403,047	2,434,421	2,433,602	2,070,555	2,097,162	2,096,123
Depreciation and amortization	172,209	219,239	236,474	142,053	179,146	201,664
Other operating expenses, net	2,824,933	2,824,933	2,824,933	2,397,228	2,397,228	2,397,228
Net interest expense	82,198	82,198	82,198	47,601	47,601	47,601
Provision for income taxes	201,081	201,081	201,081	168,275	168,275	168,275
	5,683,468	5,761,872	5,778,288	4,825,712	4,889,412	4,910,891
Net income[1]	$ 291,752	$ 213,348	$ 196,932	$ 264,855	$ 201,155	$ 179,676
Per common share[1]	$ 3.20	$ 2.34	$ 2.16	$ 2.85	$ 2.17	$ 1.94
Purchasing power gain on net monetary liabilities		$ 100,979	$ 100,979		$ 79,255	$ 79,255
Effect of increase in general price level on inventories and property, plant and equipment during the year			$ 284,350			$ 256,996
Increase in specific prices (current costs)[2]			190,879			200,949
Excess of increase in general price level over increase in specific prices			$ 93,471			$ 56,047

Five-Year Comparison of Selected Supplementary Financial Data
Adjusted for the Effects of Inflation

(in thousands of average 1980 dollars except per share amounts)

	1980	1979	1978	1977	1976
Net sales and other operating revenues	$5,975,220	$5,778,988	$5,431,123	$4,962,232	$4,500,830
Constant Dollar Information:					
Net income[1]	$ 213,348	$ 228,358			
Per common share[1]	$ 2.34	$ 2.46			
Net assets	$1,860,537	$1,798,157			
Current Cost Information:					
Net income[1]	$ 196,932	$ 203,974			
Per common share[1]	$ 2.16	$ 2.20			
Excess of increase in general price level over increase in specific prices	$ 93,471	$ 63,626			
Net assets	$2,092,299	$2,078,559			
Other Information:					
Purchasing power gain on net monetary liabilities	$ 100,979	$ 89,973			
Cash dividends declared per common share	$ 1.260	$ 1.254	$ 1.231	$ 1.122	$ .916
Market price per common share at year-end	$ 24.83	$ 26.84	$ 31.02	$ 37.13	$ 36.34
Average consumer price index (1967= 100)	246.8	217.4	195.4	181.5	170.5

[1]Before extraordinary charge of $17,762 (19 cents per share) in 1980.

[2]At December 27, 1980 and December 29, 1979, current cost of inventory was $433,840 and $379,814, respectively, and current cost of property, plant and equipment, net of accumulated depreciation, was $2,490,062 and $2,040,590.

In addition to the statement of earnings, various financial data for the past five years have been restated into average 1980 dollars and are presented in a separate schedule. The schedule shows that in "real" terms (i.e., after removing the effects of inflation) both sales and cash dividends per share have increased steadily each year since 1976.

However, net income adjusted into average 1980 dollars, has decreased from 1979 to 1980 under both the constant dollar and current cost methods, despite the increases reflected in the statement of earnings. This is because 1979 results have been restated using the general inflation rate of 13.5 percent in 1980, whereas year-to-year increases in net income before such restatement, were 6.1 percent under the constant dollar method and 9.6 percent under the current cost method.

Between year-end 1976 and year-end 1980, the actual market price of PepsiCo's common stock increased. During the same period, the market price per share, adjusted for inflation, decreased, although year-to-year changes were volatile, moving in both directions. Considering the many influences on the stock market, it is difficult to evaluate the meaningfulness of this information.

The value of PepsiCo's net assets on both a constant dollar and current cost basis is considerably higher than the historical dollar amount primarily due to the inflationary impact on property, plant and equipment. The current cost amount of net assets is higher than the corresponding amount in constant dollars, principally because the prices of PepsiCo's fixed assets have increased at a faster rate than general inflation during the period since acquisition, even though the last two years have seen a reversal in that trend.

Quarterly Financial Data and Information on Capital Stock

Summarized quarterly financial data (in thousands except per share amounts) for 1980, 1979 and 1978 are as follows:

	1980 Quarters Ended				
	March 22 (12 Weeks)	June 14 (12 Weeks)	Sept. 6 (12 Weeks)	Dec. 27 (16 Weeks)	Total
Net sales and other operating revenues	$1,183,042	$1,381,372	$1,518,430	$1,892,376	$5,975,220
Gross profit	591,088	693,280	749,397	934,949	2,968,714
Net income	47,596	77,498	88,507	78,151*	291,752*
Net income per share	.52	.85	.97	.86*	3.20*

*Before extraordinary charge of $17,762 (19 cents per share).

	1979 Quarters Ended				
	March 24 (12 Weeks)	June 16 (12 Weeks)	Sept. 8 (12 Weeks)	Dec. 29 (16 Weeks)	Total
Net sales and other operating revenues	$1,014,232	$1,183,746	$1,286,378	$1,606,211	$5,090,567
Gross profit	503,521	585,073	639,362	774,890	2,502,846
Net income	45,165	72,578	80,594	66,518	264,855
Net income per share	.48	.78	.86	.73	2.85

	1978 Quarters Ended				
	March 25 (12 Weeks)	June 17 (12 Weeks)	Sept. 9 (12 Weeks)	Dec. 30 (16 Weeks)	Total
Net sales and other operating revenues	$ 833,787	$1,023,041	$1,098,128	$1,345,050	$4,300,006
Gross profit	415,403	499,372	532,271	628,461	2,075,507
Net income	37,044	59,801	69,120	59,804	225,769
Net income per share	.40	.65	.74	.64	2.43

Shares of PepsiCo Capital Stock are traded on the New York and Midwest Stock Exchanges. The range of market prices for PepsiCo stock, as reported by the New York Stock Exchange, and the dividends declared in each quarter of the last two years are set forth in the table below. The quarterly dividend was increased 14% in May 1980 from 28½ cents per share to 32½ cents per share, following an increase in 1979 of 14% that raised the per share dividend from 25 cents to 28½ cents. As of February 26, 1981 the approximate number of holders of record of Capital Stock was 51,000.

Quarter	High	Low	Close	Dividend
1979				
1st Quarter	27⅜	23¼	24¾	25 ¢
2nd Quarter	25½	21⅞	24	28½¢
3rd Quarter	28½	23½	27¾	28½¢
4th Quarter	28½	23⅜	25	28½¢
1980				
1st Quarter	25⅝	20	21⅛	28½¢
2nd Quarter	26⅜	20	25¼	32½¢
3rd Quarter	28½	23¾	26⅛	32½¢
4th Quarter	26⅞	24	26	32½¢

Consolidated Statement of Income and Retained Earnings

(in thousands except per share amounts)
PepsiCo, Inc. and Subsidiaries
Years ended December 27, 1980, December 29, 1979 and December 30, 1978

	1980	1979	1978
Revenues			
Net sales	**$5,271,598**	$4,488,032	$3,774,628
Other operating revenues	**703,622**	602,535	525,378
	5,975,220	5,090,567	4,300,006
Costs and Expenses			
Cost of sales	**2,461,087**	2,113,592	1,825,162
Cost of other operating revenues	**545,419**	474,129	399,337
Marketing, administrative and other expenses	**2,393,683**	2,022,115	1,645,142
Interest expense	**114,149**	73,121	51,996
Interest income	**(31,951)**	(25,520)	(21,748)
	5,482,387	4,657,437	3,899,889
	492,833	433,130	400,117
Provision for United States and foreign income taxes (including deferred: 1980-$22,800; 1979-$25,800; 1978-$14,100)	**201,081**	168,275	174,348
Income before Extraordinary Charge	**291,752**	264,855	225,769
Extraordinary Charge			
Write-off of motor carrier operating rights	**17,762**	—	—
Net Income	**273,990**	264,855	225,769
Retained earnings at beginning of year	**1,134,060**	971,654	834,270
Cash dividends (per share: 1980-$1.26; 1979-$1.105; 1978-$.975)	**(114,886)**	(102,449)	(88,385)
Retained earnings at end of year	**$1,293,164**	$1,134,060	$ 971,654
Net Income Per Share			
Income before extraordinary charge	**$ 3.20**	$ 2.85	$ 2.43
Extraordinary charge	**.19**	—	—
Net income	**$ 3.01**	$ 2.85	$ 2.43

See accompanying notes

Consolidated Balance Sheet

(dollars in thousands)
PepsiCo, Inc. and Subsidiaries
December 27, 1980 and
December 29, 1979

Assets	1980	1979
Current Assets		
Cash	**$ 45,430**	$ 38,619
Marketable securities	**186,694**	166,698
Notes and accounts receivable, less allowance: 1980–$25,697; 1979–$24,034	**596,676**	557,157
Inventories	**428,609**	370,111
Prepaid expenses and other current assets	**100,226**	68,509
	1,357,635	1,201,094
Long-Term Receivables and Investments		
Long-term receivables	**42,281**	37,170
Investments	**15,218**	19,085
	57,499	56,255
Property, Plant and Equipment		
Land	**127,836**	101,755
Buildings	**495,247**	390,612
Machinery and equipment	**1,494,948**	1,255,823
Capital leases	**187,110**	186,792
Bottles and cases, net of customers' deposits: 1980–$49,715; 1979–$49,460	**171,524**	68,350
	2,476,665	2,003,332
Less accumulated depreciation and amortization	**717,606**	602,081
	1,759,059	1,401,251
Goodwill	**157,356**	167,797
Other Assets	**85,989**	61,181
	$3,417,538	$2,887,578

See accompanying notes

Liabilities and Shareholders' Equity	1980	1979
Current Liabilities		
Notes payable (including current installments on long-term debt and capital lease obligations)	**$ 119,144**	$ 81,033
Accounts payable	**441,359**	364,525
United States and foreign income taxes	**67,844**	62,569
Other accrued taxes	**41,926**	41,367
Other current liabilities	**334,990**	294,064
	1,005,263	843,558
Long-Term Debt	**621,563**	456,235
Capital Lease Obligations	**160,146**	162,715
Other Liabilities and Deferred Credits	**67,943**	54,821
Deferred Income Taxes	**133,700**	106,600
Shareholders' Equity		
Capital stock, par value 5¢ per share; authorized 135,000,000 shares; issued: 1980–94,916,223; 1979–94,601,214 shares	**4,746**	4,730
Capital in excess of par value	**225,915**	219,951
Retained earnings	**1,293,164**	1,134,060
Less cost of repurchased shares: 1980–3,639,701; 1979–3,647,000	**(94,902)**	(95,092)
	1,428,923	1,263,649
	$3,417,538	$2,887,578

Consolidated Statement of Changes in Financial Position

(in thousands)
PepsiCo, Inc. and Subsidiaries
Years ended December 27, 1980, December 29, 1979 and December 30, 1978

	1980	1979	1978
Financial Resources Provided			
Operations			
Net income before extraordinary charge	**$291,752**	$264,855	$225,769
Depreciation and amortization	**172,209**	142,053	117,019
Deferred income taxes	**27,100**	26,300	23,200
Other	**1,546**	12,758	12,495
Total from operations	**492,607**	445,966	378,483
Long-term debt and capital lease obligations	**186,307**	189,429	65,324
Property disposals	**30,086**	17,419	19,667
Capital stock (including conversion of debt)	**6,170**	28,676	26,874
	715,170	681,490	490,348
Financial Resources Applied			
Plant and equipment	**445,712**	386,885	364,539
Dividends	**114,886**	102,449	88,385
Bottles and cases, net	**103,174**	26,304	19,153
Long-term debt	**23,548**	51,095	58,015
Repurchase of capital stock	**—**	95,092	—
Other	**33,014**	20,809	24,130
	720,334	682,634	554,222
(Decrease) in working capital	**$ (5,164)**	$ (1,144)	$ (63,874)
Increase (Decrease) in Working Capital by Element			
Cash	**$ 6,811**	$ 8,491	$ (234)
Marketable securities	**19,996**	30,201	(101,649)
Notes and accounts receivable	**39,519**	123,507	59,251
Inventories	**58,498**	15,500	38,734
Prepaid expenses and other current assets	**31,717**	14,031	16,247
Notes payable	**(38,111)**	(23,753)	(8,712)
Accounts payable	**(76,834)**	(100,681)	(55,136)
United States and foreign income taxes	**(5,275)**	6,912	17,784
Other accrued taxes	**(559)**	(5,891)	(4,043)
Other current liabilities	**(40,926)**	(69,461)	(26,116)
(Decrease) in working capital	**(5,164)**	(1,144)	(63,874)
Working Capital at Beginning of Year	**357,536**	358,680	422,554
Working Capital at End of Year	**$352,372**	$357,536	$358,680

Notes to Consolidated Financial Statements

Note 1/Summary of Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of PepsiCo, Inc. and its subsidiaries. All significant intercompany transactions have been eliminated.

Marketable Securities. Marketable securities are stated at cost which approximates market and include time deposits of $107,871,000 in 1980 and $132,004,000 in 1979.

Inventories. Inventories are stated at the lower of cost (computed on the average or first-in, first-out method) or net realizable value.

Property, Plant and Equipment. Land, buildings, and machinery and equipment are stated at cost. Depreciation is calculated principally on a straight-line basis over the estimated useful lives of the respective assets.

In accordance with Statement of Financial Accounting Standards No. 34, beginning in 1980 interest costs associated with the construction of new facilities or major expansions are capitalized and amortized over the lives of the related assets. The amount of interest capitalized in 1980 was $11,168,000 (seven cents per share) with a corresponding reduction in interest expense.

Valuation of returnable bottles and cases is based on periodic physical inventories of those in-plant and on estimates of those in-trade. In-plant and estimated in-trade breakage, less related customers' deposits, is charged to cost of sales. Returnable bottles and cases are adjusted to deposit value within one year of acquisition except for the initial introduction of new soft drink package sizes which are adjusted to deposit value over four years. In foreign operations, returnable bottles and cases and the related customers' deposits are translated into U.S. dollars at current rates of exchange.

Goodwill. Goodwill represents the excess of cost over net tangible assets of companies acquired, certain operating rights (prior to 1980) and trademarks. Approximately $60 million, relating to acquisitions made prior to November 1, 1970, is not amortized unless there is an impairment of value. The remaining $97 million is amortized over appropriate periods not exceeding 40 years. Amortization was $4,363,000 in 1980, $3,887,000 in 1979 and $3,170,000 in 1978.

Marketing Costs. Costs of advertising and other marketing and promotional programs are charged to expense during the year, generally in relation to sales, and, except for materials in inventory and prepayments, are fully expensed by the end of the year in which the cost is incurred.

Income Taxes. Deferred income taxes arise from the deferral of investment tax credits, which are amortized over the estimated useful lives of the related assets, and from timing differences between financial and tax reporting, principally depreciation.

Taxes which would result from dividend distributions by foreign subsidiaries to the U.S. parent are provided to the extent dividends are anticipated. All other undistributed earnings of subsidiaries operating outside the U.S. have been reinvested indefinitely in foreign operations. Accordingly, no provision has been made for additional taxes, not material in amount, that might be payable with respect to such earnings in the event of remittance.

Fiscal Year. PepsiCo's fiscal year ends on the last Saturday in December. Fiscal years 1980, 1979 and 1978 ended on December 27, December 29, and December 30, respectively.

Net Income Per Share. Net income per share is computed by dividing net income by the average number of common shares and common share equivalents outstanding during each year. The conversion of all convertible debentures would not result in a material dilution.

Business Segments. Information related to revenues, operating profits, identifiable assets, depreciation and amortization expense and capital expenditures for PepsiCo's business segments is presented on page 39.

Audit Committee of the Board of Directors. The Audit Committee of the Board, composed entirely of outside directors, meets on a regular basis with PepsiCo's financial management, internal auditors, and independent accountants to review internal and external audit plans, activities, and recommendations, as well as PepsiCo's financial controls.

Note 2/Inventories

Inventories at December 27, 1980 and December 29, 1979 are summarized as follows:

	1980	1979
	(in thousands)	
Finished goods	$164,957	$151,631
Raw materials, supplies and in-process	252,026	206,009
Equipment held for resale	11,626	12,471
	$428,609	$370,111

Note 3/Notes Payable and Long-term Debt

Notes payable at December 27, 1980 and December 29, 1979 comprised the following:

	1980	1979
	(in thousands)	
Current maturities on long-term debt and capital lease obligations	$ 14,940	$ 19,818
Other notes payable	104,204	61,215
	$119,144	$ 81,033

At December 27, 1980 and December 29, 1979, long-term debt (less current maturities) consisted of:

	1980	1979
	(in thousands)	
Commercial paper, bank loans and notes (1980-15¾%; 1979-13½%)	$210,000	$106,000
10⅛% notes due 1986	150,000	—
9¼% notes due 1984	100,000	100,000
8¼% notes due 1985	100,000	100,000
8⅝% notes due 1981	—	75,000
4¾% convertible subordinated debentures ($2,500,000 due in 1995, with balance due in 1996)	4,483	8,364
Other	57,080	66,871
Total long-term debt	$621,563	$456,235

At December 27, 1980 PepsiCo had revolving credit agreements with a group of commercial banks, providing for loans up to a maximum of $325 million, maturing January 2, 1984, which supports the classification of commercial paper, bank loans and 8⅝% notes due 1981 as long-term debt.

The amounts of long-term debt maturing after 1981 are as follows: 1982, $5,101,000; 1983, $3,870,000; 1984, $312,805,000; 1985, $104,215,000; and subsequently, $195,572,000.

At December 27, 1980, $170 million of unused lines of credit with U.S. banks were also available for use by PepsiCo.

The debt agreements to which PepsiCo is a party include various restrictions, none of which is currently significant to PepsiCo.

Note 4/Capital Stock and Capital in Excess of Par Value

The changes in capital stock and capital in excess of par value are summarized below:

	Shares	Amount	Capital in Excess of Par Value	Repurchased Shares
		(dollars in thousands)		
Balance at December 31, 1977	91,794,150	$4,590	$ 164,541	—
Conversion of debentures and notes	751,362	38	15,814	—
Exercise of stock options and warrants	529,591	26	10,996	—
Balance at December 30, 1978	93,075,103	4,654	191,351	—
Conversion of debentures and notes	1,220,364	61	25,774	—
Exercise of stock options and warrants	305,747	15	2,826	—
Shares repurchased	(3,647,000)	—	—	$(95,092)
Balance at December 29, 1979	90,954,214	4,730	219,951	(95,092)
Conversion of debentures and other	190,800	9	3,864	190
Exercise of stock options	131,508	7	2,100	—
Balance outstanding at December 27, 1980	91,276,522	$4,746	$ 225,915	$(94,902)

Shares reserved at December 27, 1980 were as follows:

Incentive plan	4,137,606
Stock option plans	967,143
Convertible subordinated debentures (at $21.17 per share)	211,778
	5,316,527

Under PepsiCo's stock option plans, during 1980 options for 131,508 shares were exercised at prices ranging from $2.89 to $24.63 per share. Options for 142,997 and 529,591 shares were exercised at prices ranging from $2.89 to $24.63 and from $2.89 to $28.88, in 1979 and 1978, respectively.

At December 27, 1980, December 29, 1979 and December 30, 1978 there were outstanding options for the purchase of 1,323,184, 1,243,383 and 1,511,697 shares, respectively, at prices ranging from $2.89 to $28.88. At December 27, 1980, options for 249,736 shares were exercisable.

Options were granted during 1980 for 602,070 shares at option prices ranging from $23.88 to $24.13. Options have been cancelled as follows: 1980–79,694; 1979–125,317; 1978–278,957.

In 1979, stock appreciation rights ("SAR's") were granted with respect to certain stock options. Each SAR entitles an optionee to receive, in cash or shares of PepsiCo capital stock (as determined by the Compensation Committee of PepsiCo's Board of Directors), the excess, if any, of the fair market value of a share of capital stock on the date the SAR is exercised, less the option exercise price. Options are automatically cancelled upon exercise of the related SAR. SAR's expire on the same dates as the related options. At December 27, 1980, 220,256 SAR's were outstanding and exercisable.

In 1979, PepsiCo shareholders approved the 1979 Incentive Plan which carried forward the principal features of the 1972 Performance Share Plan and replaced the 1975 Stock Option Plan with an incentive stock unit program. Under the 1979 Plan the Compensation Committee of the Board of Directors may award performance shares (each unit being limited to the market value of a share of PepsiCo capital stock on date of grant), and an equal number of stock options to purchase capital stock to senior management employees, and may award incentive stock units, rather than options, to other management employees. Performance shares are not paid unless PepsiCo achieves stated cumulative growth rates in earnings per share over the four-year period following the award. Incentive stock units are rights to receive shares of capital stock or their value, which vest over a period of time, without payment of any amounts to PepsiCo or satisfaction of any performance objectives.

Payments for performance share units and incentive stock units may be made in cash or in capital stock, or a combination thereof, as the Committee decides. The aggregate number of shares of capital stock which may be delivered or purchased under the Plan may not exceed 4,600,000 shares. During 1980 and 1978, performance share units were awarded, of which 965,797 were outstanding at December 27, 1980. During 1980 and 1979, incentive stock units were awarded of which 227,427 were outstanding at December 27, 1980. The cost of awards under the 1972 Performance Share Plan and the 1979 Incentive Plan is being charged to income ($8,787,000 in 1980, $5,220,000 in 1979 and $5,214,000 in 1978) over the applicable term of the award period.

Note 5/Leases and Commitments

PepsiCo and its subsidiaries have noncancellable commitments for rental of restaurant facilities, office space, plant and warehouse facilities, transportation equipment and other personal property under both capital and operating leases. Certain franchised restaurants are leased and subsequently subleased to franchisees. Lease commitments on capital and operating leases expire at various dates to 2014 and 2015, respectively. Following is an analysis of leased property under capital leases by major classes at December 27, 1980 and December 29, 1979.

	1980	1979
	(in thousands)	
Buildings	$177,944	$178,253
Machinery and equipment	9,166	8,539
	187,110	186,792
Less accumulated amortization	64,398	57,740
	$122,712	$129,052

Following is a schedule by year of future minimum lease commitments and sublease receivables under all noncancellable leases (in thousands):

	Commitments		Sublease Receivables	
	Capital	Operating	Direct Financing	Operating
1981	$ 26,613	$ 42,863	$ (3,774)	$ (4,569)
1982	25,538	37,809	(3,720)	(4,418)
1983	24,274	31,699	(3,721)	(4,283)
1984	23,291	27,012	(3,733)	(3,950)
1985	22,507	23,353	(3,744)	(3,799)
Later years	218,465	166,202	(33,972)	(27,887)
Total minimum lease commitments (receivables)	$340,688	$328,938	$(52,664)	$(48,906)

The present value of minimum lease payments for capital leases amounts to $168,796,000 after deducting $5,289,000 for estimated executory costs (taxes, maintenance and insurance) and $166,603,000 representing imputed interest. The present value of minimum sublease receivables amounts to $24,838,000 after deducting $27,826,000 of unearned income. Total rental expense for all operating leases for years ended December 27, 1980, December 29, 1979 and December 30, 1978 was $76,208,000, $57,549,000 and $47,434,000, respectively. Total rental income from all operating subleases for years ended December 27, 1980, December 29, 1979 and December 30, 1978 was $6,693,000, $5,953,000 and $5,255,000, respectively.

At December 27, 1980, PepsiCo and its subsidiaries were contingently liable under guarantees aggregating $75,000,000.

Note 6/Income taxes

The provision for U.S. federal and foreign income taxes is comprised of the following:

	1980	1979	1978
		(in thousands)	
Current:			
U.S.	$132,947	$107,673	$133,670
Foreign	45,334	34,802	26,578
Deferred (principally U.S.)	22,800	25,800	14,100
	$201,081	$168,275	$174,348

U.S. and foreign income before federal and foreign income taxes and the extraordinary charge were as follows:

	1980	1979	1978
		(in thousands)	
U.S.	$359,275	$306,216	$312,216
Foreign	133,558	126,914	87,901
Total	$492,833	$433,130	$400,117

The differences between the effective and statutory U.S. federal income tax rates are comprised of the following:

	1980	1979	1978
U.S. statutory rate	46.0%	46.0%	48.0%
Effect of earnings of foreign operations taxed at an aggregate rate less than the statutory U.S. rate	(3.0)	(5.3)	(2.8)
Other–net	(2.2)	(1.8)	(1.6)
	40.8%	38.9%	43.6%

The lower effective rates result principally because a substantial portion of the earnings of a U.S. subsidiary operating in Puerto Rico (which has been invested in marketable securities) is not taxable.

Deferred income tax expense arises from the following items:

	1980	1979	1978
		(in thousands)	
Excess of tax over financial statement expense related to depreciable assets (including capital leases)	$ 23,500	$ 17,600	$ 9,600
Deferral of investment tax credit benefits	9,500	8,400	11,300
Other–net	(10,200)	(200)	(6,800)
	$ 22,800	$ 25,800	$ 14,100

U.S. and foreign income taxes payable consist of the following:

	1980	1979
	(in thousands)	
U.S.	$ 37,744	$ 36,772
Foreign	30,100	25,797
	$ 67,844	$ 62,569

Deferred income taxes payable include:

	1980	1979
	(in thousands)	
Deferred income taxes	$ 80,600	$ 63,000
Deferred investment tax credits	53,100	43,600
	$133,700	$106,600

Note 7/Employee Benefit Plans

PepsiCo and its subsidiaries have several non-contributory pension plans covering substantially all domestic employees (mostly non-union). The total pension expense for all plans for 1980, 1979, and 1978 was approximately $42,400,000, $36,700,000, and $31,800,000, respectively, which includes amortization of unfunded past service cost over 30 years for certain defined benefit plans. PepsiCo makes annual contributions to the plans equal to the amounts accrued for pension expense. A comparison of accumulated plan benefits and plan net assets for PepsiCo's domestic defined benefit plans is presented below:

	January 1	
	1980	1979
	(in thousands)	
Actuarial present value of accumulated plan benefits:		
Vested	$160,170	$149,923
Non-vested	22,481	24,583
	$182,651	$174,506
Net assets available for benefits	$198,345	$158,580

The rate of return used in determining the actuarial present value of accumulated plan benefits was seven percent for both 1980 and 1979.

Note 8/Supplementary Income Statement Items

	1980	1979	1978
		(in thousands)	
Maintenance and repairs	$142,450	$120,497	$100,073
Depreciation and amortization of property, plant and equipment	$166,862	$137,344	$112,778
Taxes other than U.S. federal and foreign income taxes:			
Payroll	$ 81,966	$ 71,465	$ 60,577
State income taxes	$ 20,206	$ 21,215	$ 16,500
Other	$ 50,899	$ 53,822	$ 42,770
Advertising costs	$358,282	$306,501	$257,681
Foreign exchange losses (gains)	$ (11,900)	$ (5,700)	$ 11,600*

*Related principally to Swiss franc loan repaid in December 1978.

Note 9/Extraordinary Charge—Write-off of Motor Carrier Operating Rights

Subsequent to the enactment in July of the Motor Carrier Act of 1980, which substantially deregulated the trucking industry, the Financial Accounting Standards Board adopted Statement No. 44 which generally required the write-off of interstate operating rights in the financial statements of motor carriers. Accordingly, PepsiCo recorded as an extraordinary charge in the fourth quarter of 1980 the write-off of operating rights of its transportation businesses aggregating $17,762,000 (19 cents per share). No current tax benefit has been recorded for the extraordinary charge, pending clarification of its deductibility for income tax purposes.

Report of Chief Financial Officer

To Our Shareholders:

PepsiCo, Inc. is responsible for the integrity and objectivity of its financial statements. To fulfill this responsibility, PepsiCo maintains an accounting system and related controls directed towards the safeguarding of assets and the reliability of financial information. An integral part of such controls is an internal audit program designed to monitor compliance with PepsiCo's policies and procedures.

The international accounting firm of Arthur Young & Company has been retained to examine the financial statements of PepsiCo and to report to our shareholders the results of that examination. Representatives of that firm meet regularly with the Audit Committee of the Board of Directors, composed entirely of non-employee directors, to discuss the results of their audit which includes a review and evaluation of PepsiCo's internal controls and financial reporting. Arthur Young & Company's report to you on our financial statements is presented below.

H A Schaefer

Herman A. Schaefer
Executive Vice President
Finance and Administration

Report of Certified Public Accountants

Board of Directors and Shareholders
PepsiCo, Inc.

We have examined the accompanying consolidated balance sheet of PepsiCo, Inc. and subsidiaries at December 27, 1980 and December 29, 1979, and the related consolidated statements of income and retained earnings and changes in financial position for each of the three years in the period ended December 27, 1980. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of PepsiCo, Inc. and subsidiaries at December 27, 1980 and December 29, 1979, and the consolidated results of operations and changes in financial position for each of the three years in the period ended December 27, 1980, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company

277 Park Avenue
New York, New York
February 5, 1981

Ten-Year Comparative Summary

PepsiCo, Inc. and Subsidiaries

	1980	1979
Summary of Operations		
(in thousands except per common share)		
Net sales and other operating revenues	**$5,975,220**	$5,090,567
Cost of sales and other operating revenues	**3,006,506**	2,587,721
Marketing, administrative and other expenses	**2,393,683**	2,022,115
Interest expense	**114,149**	73,121
Interest income	**(31,951)**	(25,520)
	5,482,387	4,657,437
	492,833	433,130
U.S. and foreign income taxes	**201,081**	168,275
	291,752	264,855
Equity in net income of PepsiCo Leasing Corporation	**—**	—
Net income	**291,752**(1)	264,855
Per common share	**$ 3.20**(1)	$ 2.85
Cash dividends declared	**114,886**	102,449
Per common share	**$ 1.26**	$ 1.105
Additions to property, plant and equipment	**445,712**	386,885
Depreciation and amortization	**172,209**	142,053
Average common shares outstanding	**91,165**	92,808
Year-End Position		
(in thousands except per common share)		
Working capital	**352,372**	357,536
Property, plant and equipment–net	**1,759,059**	1,401,251
Total assets	**3,417,538**	2,887,578
Long-term debt(2)	**781,709**	618,950
Shareholders' equity	**1,428,923**	1,263,649
Per common share	**$ 15.65**	$ 13.89
Common shares outstanding	**91,277**	90,954
Statistics and Ratios		
Current assets to current liabilities	**1.4 to 1**	1.4 to 1
Return on average shareholders' equity	**21.7%**(1)	21.8%
Return on revenues	**4.9%**(1)	5.2%
Long-term debt(2) to total capital employed(3)	**30.9%**	29.1%
Total debt(2) to total capital employed(3)	**35.6%**	32.9%
Employees	**111,000**	105,000
Shareholders	**51,000**	53,000

(1) Before extraordinary charge of $17,762 (19 cents per share)
(2) Includes capital leases
(3) Total capital employed is total debt, shareholders' equity, deferred income taxes and other liabilities and deferred credits.

1978	1977	1976	1975	1974	1973	1972	1971
$4,300,006	$3,649,291	$3,109,366	$2,709,373	$2,408,808	$1,938,851	$1,578,802	$1,381,883
2,224,499	1,881,742	1,639,937	1,487,922	1,361,701	1,055,334	840,099	746,436
1,645,142	1,392,195	1,153,400	970,049	835,959	699,864	583,310	498,844
51,996	45,983	45,000	52,096	55,998	36,053	17,963	18,630
(21,748)	(25,643)	(26,034)	(21,292)	(18,313)	(13,701)	(9,066)	(8,075)
3,899,889	3,294,277	2,812,303	2,488,775	2,235,345	1,777,550	1,432,306	1,255,835
400,117	355,014	297,063	220,598	173,463	161,301	146,496	126,048
174,348	158,273	135,328	98,964	75,536	74,494	67,852	57,096
225,769	196,741	161,735	121,634	97,927	86,807	78,644	68,952
—	—	—	1,852	2,345	2,699	2,638	990
225,769	196,741	161,735	123,486	100,272	89,506	81,282	69,942
$ 2.43	$ 2.14	$ 1.79	$ 1.38	$ 1.13	$ 1.01	$ .93	$ .82
88,385	67,021	47,764	37,085	31,755	27,783	24,108	23,592
$ .975	$ .825	$ .633	$ .500	$ .433	$ .380	$ .333	$ .333
364,539	275,116	191,767	139,838	194,614	182,567	87,262	65,897
117,019	93,723	79,057	72,739	64,832	54,031	41,334	36,128
92,883	92,046	90,600	89,288	89,008	88,798	87,306	85,427
358,680	422,554	424,817	369,772	305,108	172,426	169,660	150,613
1,137,744	885,328	713,191	614,803	590,749	495,553	374,368	335,721
2,419,369	2,130,294	1,853,599	1,660,577	1,603,892	1,358,572	1,064,550	933,778
479,134	467,808	433,887	463,857	482,491	345,661	257,305	226,994
1,167,659	1,003,401	868,480	719,532	630,367	560,004	497,465	422,934
$ 12.55	$ 10.93	$ 9.50	$ 8.09	$ 7.12	$ 6.34	$ 5.65	$ 4.91
93,075	91,794	91,420	88,894	88,563	88,396	88,003	86,119
1.6 to 1	1.7 to 1	1.9 to 1	1.9 to 1	1.7 to 1	1.4 to 1	1.7 to 1	1.7 to 1
20.8%	21.0%	20.4%	18.3%	16.8%	16.9%	17.7%	17.9%
5.3%	5.4%	5.2%	4.6%	4.2%	4.6%	5.1%	5.1%
26.2%	29.2%	30.6%	34.9%	36.3%	31.1%	29.4%	29.7%
29.4%	32.2%	34.2%	40.2%	47.6%	43.8%	36.4%	38.6%
95,000	83,000	77,000	71,000	68,000	63,000	51,000	46,000
55,000	52,000	48,000	49,000	51,000	52,000	53,000	53,000

PepsiCo, Inc. Directors and Officers

Directors

Victor A. Bonomo
Executive Vice President, Operations, PepsiCo, Inc.

William T. Coleman, Jr.
Partner, O'Melveny & Myers

Clifton C. Garvin, Jr.
Chairman of the Board and Chief Executive Officer, Exxon Corporation

John V. James
Chairman of the Board and Chief Executive Officer, Dresser Industries, Inc.

Donald M. Kendall
Chairman of the Board and Chief Executive Officer, PepsiCo, Inc.

T. Vincent Learson
Member of the Board of Directors and Retired Chairman, International Business Machines Corporation

Thomas A. Murphy
Retired Chairman of the Board and Chief Executive Officer, General Motors Corporation

Andrall E. Pearson
President and Chief Operating Officer, PepsiCo, Inc.

Herman A. Schaefer
Executive Vice President, Finance and Administration, PepsiCo, Inc.

Robert H. Stewart, III
Chairman of the Executive Committee, First International Bancshares, Inc.

Peter K. Warren
Chairman, PepsiCo International and Senior Vice President, International Beverages, PepsiCo, Inc.

Dr. Arnold R. Weber
President, University of Colorado

Committees

Audit Committee:
Messrs. Learson (chairman), Coleman, Garvin, James, Murphy, Stewart and Weber

Compensation Committee:
Messrs. Stewart (chairman), Coleman, Garvin, James, Learson, Murphy and Weber

Executive Committee:
Messrs. Kendall (chairman), Bonomo, Garvin, Learson, Pearson, Schaefer, Stewart and Warren

Officers

Donald M. Kendall
Chairman of the Board and Chief Executive Officer

Andrall E. Pearson
President and Chief Operating Officer

Victor A. Bonomo
Executive Vice President, Operations

Herman A. Schaefer
Executive Vice President, Finance and Administration

D. Wayne Calloway
Senior Vice President, Snack Foods (U.S.)

John Sculley
Senior Vice President, Beverage Operations (U.S.)

Donald N. Smith
Senior Vice President, Food Service

Peter K. Warren
Senior Vice President, International Beverages

Richard I. Ahern
Vice President, International Bottling

Mehdi R. Ali
Vice President and Treasurer

Richard J. Caley
Vice President, Sporting Goods

Cartha D. DeLoach
Vice President, Corporate Affairs

Gerald J. Fischer
Vice President, Corporate Development

William J. Gill
Vice President, Research and Technical Services

Edward V. Lahey, Jr.
Vice President, General Counsel and Secretary

Harvey Luppescu
Vice President, Tax Administration

Fredrick S. Meils
Vice President, Financial Management and Planning

Frank L. Peck
Vice President, Concentrate Operations

Harvey C. Russell
Vice President, Community Affairs

Leonard Schutzman
Vice President and Controller

Edward F. Walsh
Vice President, Personnel

Vincent M. Burke
Assistant Controller

Douglas E. Moran
Assistant Controller

Martyn R. Redgrave
Assistant Controller

Wendell W. Gunn
Assistant Treasurer

Peter D. Houchin
Assistant Treasurer

Richard Leberman
Assistant Treasurer

Walter S. Rosenstein
Assistant Secretary

Executive Offices
Purchase, New York 10577
(914) 253-2000

Principal Divisions and Subsidiaries

Pepsi-Cola Company
Purchase, New York 10577
John Sculley, President

Frito-Lay, Inc.
Frito-Lay Tower,
Exchange Park
Dallas, Texas 75235
D. Wayne Calloway, President

PepsiCo International
Purchase, New York 10577
Peter K. Warren, Chairman
Robert H. Beeby, President

Pizza Hut, Inc.
9111 East Douglas
Wichita, Kansas 67207
Arthur G. Gunther, President

North American Van Lines, Inc.
5001 U.S. 30 West
Fort Wayne, Indiana 46818
Kenneth W. Maxfield,
President

Lee Way Motor Freight, Inc.
3401 N.W. 63rd Street
Oklahoma City, Oklahoma
73157
Richard L. Frucci, President

Wilson Sporting Goods Co.
2233 West Street
River Grove, Illinois 60171
Richard J. Caley, President

Taco Bell
17381 Red Hill Avenue
Irvine, California 92714
Donald N. Smith, Chairman

PepsiCo Foods International
4141 Blue Lake Circle
Suite 260
Dallas, Texas 75234
John J. Kickham, President

Pepsi-Cola Bottling Group
Purchase, New York 10577
Robert G. Dettmer, President

United Beverages International
Purchase, New York 10577
Richard I. Ahern, President

PepsiCo Wines and Spirits International
Purchase, New York 10577
Norman Heller, President

PepsiCo Food Service International
Purchase, New York 10577
Graham G. Butler, President

Capital Stock
Shares of PepsiCo Capital Stock are traded on the New York and Midwest Stock Exchanges

Form 10-K
Copies of PepsiCo's Form 10-K Report to the Securities and Exchange Commission may be obtained without charge from the Director of Corporate Communications, PepsiCo, Inc., Purchase, N.Y. 10577

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New York, New York 10172

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(212) 558-7409

Annual Meeting
The Annual Meeting of Shareholders will be held at the offices of the Corporation, Purchase, New York, at 10:00 a.m. (E.D.T.) Wednesday, May 6, 1981. Proxies for the meeting will be solicited by management in a separate Proxy Statement. This report is not part of such proxy solicitation.

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